Intermediate Accounting 10th edition Spiceland Test Bank

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Intermediate Accounting, 10e **(Spiceland)**
Chapter 2 Review of the Accounting Process

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

Answer: TRUE
Difficulty: 1 Easy
Topic: Accounting equation
Learning Objective: 02-01 Understand routine economic events-transactions-and determine their effects on a company's financial position and on specific accounts.
Bloom's: Remember
AACSB: Reflective Thinking
AICPA/Accessibility: BB Critical Thinking / Keyboard Navigation

2) Debits increase asset accounts and decrease liability accounts.

Answer: TRUE
Difficulty: 1 Easy
Topic: Account relationships and records
Learning Objective: 02-01 Understand routine economic events-transactions-and determine their effects on a company's financial position and on specific accounts.
Bloom's: Remember
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3) Balance sheet accounts are referred to as temporary accounts because their balances are always changing.

Answer: FALSE
Difficulty: 1 Easy
Topic: Account relationships and records
Learning Objective: 02-01 Understand routine economic events-transactions-and determine their effects on a company's financial position and on specific accounts.
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4) After an unadjusted trial balance is prepared, the next step in the accounting processing cycle is the preparation of financial statements.

Answer: FALSE
Difficulty: 1 Easy
Topic: Accounting processing cycle steps
Learning Objective: 02-02 Describe the steps in the accounting processing cycle.
Bloom's: Remember
AACSB: Reflective Thinking
AICPA/Accessibility: BB Critical Thinking / Keyboard Navigation

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

Answer: TRUE
Difficulty: 1 Easy
Topic: Accounting processing cycle steps
Learning Objective: 02-02 Describe the steps in the accounting processing cycle.
Bloom's: Remember
AACSB: Reflective Thinking
AICPA/Accessibility: BB Critical Thinking / Keyboard Navigation

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

Answer: FALSE
Difficulty: 1 Easy
Topic: Analyze updating-Identify type of adjustment
Learning Objective: 02-05 Identify and describe the different types of adjusting journal entries.
Bloom's: Remember
AACSB: Reflective Thinking
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7) The adjusted trial balance contains only permanent accounts.

Answer: FALSE
Difficulty: 1 Easy
Topic: Trial balance—Adjusted
Learning Objective: 02-06 Record adjusting journal entries in general journal format, post entries, and prepare an adjusted trial balance.
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8) The income statement summarizes the operating activity of a company at a particular point in time.

Answer: FALSE
Difficulty: 1 Easy
Topic: Financial statement—Income Statement
Learning Objective: 02-07 Describe the four basic financial statements.
Bloom's: Remember
AACSB: Reflective Thinking
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9) The balance sheet can be considered a change or flow statement.

Answer: FALSE
Difficulty: 1 Easy
Topic: Financial statement—Balance sheet
Learning Objective: 02-07 Describe the four basic financial statements.
Bloom's: Remember
AACSB: Reflective Thinking
AICPA/Accessibility: BB Critical Thinking; FN Measurement / Keyboard Navigation

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

Answer: TRUE
Difficulty: 1 Easy
Topic: Financial statement—Cash flow
Learning Objective: 02-07 Describe the four basic financial statements.
Bloom's: Remember
AACSB: Reflective Thinking
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11) The statement of shareholders' equity discloses the changes in the temporary shareholders' equity accounts.

Answer: FALSE
Difficulty: 2 Medium
Topic: Financial statement—Shareholders equity
Learning Objective: 02-07 Describe the four basic financial statements.
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12) The post-closing trial balance contains only permanent accounts.

Answer: TRUE
Difficulty: 1 Easy
Topic: The closing process
Learning Objective: 02-08 Explain the closing process.
Bloom's: Remember
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13) The closing process brings all temporary accounts to a zero balance and updates the balance in the retained earnings account.

Answer: TRUE
Difficulty: 1 Easy
Topic: The closing process
Learning Objective: 02-08 Explain the closing process.
Bloom's: Remember
AACSB: Reflective Thinking
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14) A reversing entry at the beginning of a period for salaries would include a debit to salaries expense.

Answer: FALSE
Difficulty: 2 Medium
Topic: Reversing entries
Learning Objective: Appendix 2B Reversing Entries.
Bloom's: Remember
AACSB: Reflective Thinking
AICPA/Accessibility: BB Critical Thinking / Keyboard Navigation

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

Answer: TRUE
Difficulty: 1 Easy
Topic: Subsidiary ledgers and Special journals
Learning Objective: Appendix 2C Subsidiary Ledgers and Special Journals.
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16) The payment of cash to a supplier would be recorded in a purchases journal.

Answer: FALSE
Difficulty: 1 Easy
Topic: Subsidiary ledgers and Special journals
Learning Objective: Appendix 2C Subsidiary Ledgers and Special Journals.
Bloom's: Remember
AACSB: Reflective Thinking
AICPA/Accessibility: BB Critical Thinking / Keyboard Navigation

17) The accounting equation can be stated as:
A) A + L − OE = 0.
B) A − L + OE = 0.
C) −A + L − OE = 0.
D) A − L − OE = 0.

Answer: D
Difficulty: 2 Medium
Topic: Accounting equation
Learning Objective: 02-01 Understand routine economic events-transactions-and determine their effects on a company's financial position and on specific accounts.
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18) Examples of external transactions include all of the following **except:**
A) Paying employee salaries.
B) Purchasing equipment.
C) Depreciating equipment.
D) Collecting a receivable.

Answer: C
Difficulty: 2 Medium
Topic: Account relationships and records; Analyze transaction-Record journal entry
Learning Objective: 02-01 Understand routine economic events-transactions-and determine their effects on a company's financial position and on specific accounts.; 02-03 Analyze and record transactions using journal entries.
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19) Examples of internal transactions include all of the following **except:**
A) Writing off an uncollectible account.
B) Recording the expiration of prepaid insurance.
C) Recording unpaid salaries.
D) Paying salaries to company employees.

Answer: D
Difficulty: 2 Medium
Topic: Account relationships and records; Analyze updating-Record adjusting entry
Learning Objective: 02-01 Understand routine economic events-transactions-and determine their effects on a company's financial position and on specific accounts.; 02-06 Record adjusting journal entries in general journal format, post entries, and prepare an adjusted trial balance.
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20) XYZ Corporation receives $100,000 from investors for issuing them shares of its stock. XYZ's journal entry to record this transaction would include a:
A) Debit to investments.
B) Credit to retained earnings.
C) Credit to common stock.
D) Credit to revenue.

Answer: C
Difficulty: 2 Medium
Topic: Analyze transaction-Record journal entry
Learning Objective: 02-03 Analyze and record transactions using journal entries.
Bloom's: Analyze
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21) Incurring an expense for advertising on account would be recorded by:
A) Debiting liabilities.
B) Crediting assets.
C) Debiting an expense.
D) Debiting assets.

Answer: C
Difficulty: 2 Medium
Topic: Analyze transaction-Record journal entry
Learning Objective: 02-03 Analyze and record transactions using journal entries.
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22) A sale on account would be recorded by:
A) Debiting revenue.
B) Crediting assets.
C) Crediting liabilities.
D) Debiting assets.

Answer: D
Difficulty: 2 Medium
Topic: Analyze transaction-Record journal entry
Learning Objective: 02-03 Analyze and record transactions using journal entries.
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23) The entry to record a sale on account would include:
A)

	Debit	Credit
Sales revenue	No	Yes
Cash	Yes	No

B)

	Debit	Credit
Accounts receivable	Yes	No
Sales revenue	Yes	No

C)

	Debit	Credit
Cash	No	No
Accounts receivable	Yes	No

D)

	Debit	Credit
Cash	Yes	No
Sales revenue	No	Yes

Answer: C
Explanation:

Accounts receivable	xxx	
Sales revenue		xxx

Difficulty: 3 Hard
Topic: Analyze transaction-Record journal entry
Learning Objective: 02-03 Analyze and record transactions using journal entries.
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24) Super Corporation receives $4,000,000 from investors when issuing them shares of its stock. Super's entry to record this transaction would include which of the following?

A)

	Debit	Credit
Sales revenue	No	Yes
Cash	Yes	No

B)

	Debit	Credit
Cash	Yes	No
Investments	No	Yes

C)

	Debit	Credit
Cash	Yes	No
Common stock	No	Yes

D)

	Debit	Credit
Cash	Yes	No
Retained earnings	No	Yes

Answer: C
Difficulty: 2 Medium
Topic: Analyze transaction-Record journal entry
Learning Objective: 02-03 Analyze and record transactions using journal entries.
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25) Mary Parker Co. invested $15,000 in ABC Corporation and received common stock in exchange. Mary Parker Co.'s journal entry to record this transaction would include a:
A) Debit to investments.
B) Credit to retained earnings.
C) Credit to common stock.
D) Debit to expense.

Answer: A
Difficulty: 2 Medium
Topic: Analyze transaction-Record journal entry
Learning Objective: 02-03 Analyze and record transactions using journal entries.
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26) Hughes Aircraft sold a four-passenger airplane for $980,000, receiving a a 12% note receivable. The journal entry to record this sale would include a:
A) Credit to cash.
B) Credit to interest revenue.
C) Debit to notes receivable.
D) Credit to notes receivable.

Answer: C
Difficulty: 3 Hard
Topic: Analyze transaction-Record journal entry
Learning Objective: 02-03 Analyze and record transactions using journal entries.
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27) Boing Aircraft sold a four-passenger airplane for $2,800,000, receiving a $500,000 down payment and a 7% note for the balance. The entry to record this sale would include which of the following?

A)

	Debit	Credit
Cash	Yes	No
Cash discount	Yes	No

B)

	Debit	Credit
Notes receivable	No	Yes
Sales revenue	Yes	No

C)

	Debit	Credit
Cash	Yes	No
Notes receivable	Yes	No

D)

	Debit	Credit
Cash	Yes	No
Cash discount	No	Yes

Answer: C

Explanation:

Cash	500,000	
Notes receivable	2,300,000	
Sales revenue		2,800,000

Difficulty: 3 Hard
Topic: Analyze transaction-Record journal entry
Learning Objective: 02-03 Analyze and record transactions using journal entries.
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28) Somerset Leasing received $12,000 for 12 months' rent in advance. How should Somerset record this transaction?

A)

Prepaid rent	12,000	
Rent expense		12,000

B)

Cash	12,000	
Deferred rent revenue		12,000

C)

Interest expense	12,000	
Interest payable		12,000

D)

Salaries expense	12,000	
Salaries payable		12,000

Answer: B
Difficulty: 2 Medium
Topic: Analyze transaction-Record journal entry
Learning Objective: 02-03 Analyze and record transactions using journal entries.
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29) Davis Hardware Company uses a perpetual inventory system. How should Davis record the sale of merchandise, costing $620, and sold on account for $960?

A)

Inventory	620	
Accounts receivable		620
Sales	960	
Sales revenue		960

B)

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

C)

Inventory	620	
Gain on sale	340	
Sales revenue		960

D)

Accounts receivable	960	
Sales revenue		620
Gain on sale		340

Answer: B
Difficulty: 3 Hard
Topic: Analyze transaction-Record journal entry
Learning Objective: 02-03 Analyze and record transactions using journal entries.
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30) Ace Bonding Company purchased merchandise inventory on account. The inventory costs $2,000 and is expected to sell for $3,000. How should Ace record the purchase?

A)

Inventory	2,000	
Accounts payable		2,000

B)

Cost of goods sold	2,000	
Deferred sales revenue	1,000	
Sales in advance		3,000

C)

Cost of goods sold	2,000	
Inventory payable		2,000

D)

Cost of goods sold	2,000	
Profit	1,000	
Sales payable		3,000

Answer: A
Difficulty: 3 Hard
Topic: Analyze transaction-Record journal entry
Learning Objective: 02-03 Analyze and record transactions using journal entries.
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31) Which of the following accounts has a balance whereby debits normally exceed credits?
A) Accounts payable.
B) Accrued salaries.
C) Accumulated depreciation.
D) Advertising expense.

Answer: D
Difficulty: 1 Easy
Topic: Account relationships and records; Determine account balance-Analyze entries
Learning Objective: 02-01 Understand routine economic events-transactions-and determine their effects on a company's financial position and on specific accounts.; 02-06 Record adjusting journal entries in general journal format, post entries, and prepare an adjusted trial balance.; 02-04 Post the effects of journal entries to general ledger accounts and prepare an unadjusted trial balance.
Bloom's: Remember
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32) An example of a contra account is:
A) Depreciation expense.
B) Accounts receivable.
C) Sales revenue.
D) Accumulated depreciation.

Answer: D
Difficulty: 1 Easy
Topic: Analyze updating-Identify type of adjustment
Learning Objective: 02-05 Identify and describe the different types of adjusting journal entries.
Bloom's: Remember
AACSB: Reflective Thinking
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33) Making insurance payments in advance is an example of:
A) An accrued receivable transaction.
B) An accrued liability transaction.
C) A deferred revenue transaction.
D) A prepaid expense transaction.

Answer: D
Difficulty: 1 Easy
Topic: Analyze updating-Identify type of adjustment; Analyze transaction-Record journal entry
Learning Objective: 02-05 Identify and describe the different types of adjusting journal entries.; 02-03 Analyze and record transactions using journal entries.
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34) Recording revenue before it is collected is an example of:
A) A prepaid expense transaction.
B) A deferred revenue transaction.
C) An accrued liability transaction.
D) An accrued receivable transaction.

Answer: D
Difficulty: 1 Easy
Topic: Analyze updating-Identify type of adjustment
Learning Objective: 02-05 Identify and describe the different types of adjusting journal entries.
Bloom's: Understand
AACSB: Reflective Thinking
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35) When a magazine company collects cash for selling a subscription, it is an example of:
A) An accrued liability transaction.
B) An accrued receivable transaction.
C) A prepaid expense transaction.
D) A deferred revenue transaction.

Answer: D
Difficulty: 1 Easy
Topic: Analyze updating-Identify type of adjustment; Analyze transaction-Record journal entry
Learning Objective: 02-05 Identify and describe the different types of adjusting journal entries.; 02-03 Analyze and record transactions using journal entries.
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36) On December 31, 2020, Coolwear, Inc. had a balance in its prepaid insurance account of $48,400. During 2021, $86,000 was paid for insurance. At the end of 2021, after adjusting entries were recorded, the balance in the prepaid insurance account was $42,000. Insurance expense for 2021 was:
A) $6,400.
B) $134,400.
C) $86,000.
D) $92,400.

Answer: D
Explanation: Insurance expense = $48,400 + $86,000 − $42,000 = $92,400
Difficulty: 2 Medium
Topic: Analyze updating-Record adjusting entry; Determine account balance-Analyze entries
Learning Objective: 02-06 Record adjusting journal entries in general journal format, post entries, and prepare an adjusted trial balance.; 02-09 Convert from cash-basis net income to accrual-basis net income.
Bloom's: Analyze
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37) Adjusting entries are needed primarily for:
A) Cash basis accounting.
B) Accrual accounting.
C) Current value accounting.
D) Manual accounting systems.

Answer: B
Difficulty: 1 Easy
Topic: Analyze updating-Identify type of adjustment
Learning Objective: 02-05 Identify and describe the different types of adjusting journal entries.
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38) Prepayments occur when:
A) Cash flow precedes expense recognition.
B) Sales are delayed pending credit approval.
C) Customers are unable to pay the full amount due when goods are delivered.
D) Manufactured goods await quality control inspections.

Answer: A
Difficulty: 2 Medium
Topic: Analyze updating-Identify type of adjustment
Learning Objective: 02-05 Identify and describe the different types of adjusting journal entries.
Bloom's: Remember
AACSB: Reflective Thinking
AICPA/Accessibility: BB Critical Thinking / Keyboard Navigation

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

Answer: B
Difficulty: 2 Medium
Topic: Analyze updating-Identify type of adjustment
Learning Objective: 02-05 Identify and describe the different types of adjusting journal entries.
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40) On December 31, 2021, the end of Larry's Used Cars' first year of operations, the accounts receivable was $53,600. The company estimates that $1,200 of the year-end receivables will not be collected. Accounts receivable in the 2021 balance sheet will be valued at:
A) $53,600.
B) $54,800.
C) $52,400.
D) $1,200.

Answer: C
Explanation: Accounts receivable = $53,600 − $1,200 = $52,400
Difficulty: 2 Medium
Topic: Analyze updating-Identify type of adjustment
Learning Objective: 02-05 Identify and describe the different types of adjusting journal entries.
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41) Cal Farms reported supplies expense of $2,000,000 this year. The supplies account decreased by $200,000 during the year to an ending balance of $400,000. What was the cost of supplies the Cal Farms purchased during the year?
A) $1,600,000.
B) $1,800,000.
C) $2,200,000.
D) $2,400,000.

Answer: B
Explanation:

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

Supplies purchases: $400,000 + $2,000,000 − $600,000 = $1,800,000
Difficulty: 2 Medium
Topic: Determine account balance-Analyze entries
Learning Objective: 02-06 Record adjusting journal entries in general journal format, post entries, and prepare an adjusted trial balance.; 02-09 Convert from cash-basis net income to accrual-basis net income.
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42) Which of the following is not an adjusting entry?
A)

Prepaid rent	
	Rent expense

B)

Cash	
	Deferred sales revenue

C)

Interest expense	
	Interest payable

D)

Salaries expense	
	Salaries payable

Answer: B
Difficulty: 2 Medium
Topic: Analyze updating-Record adjusting entry
Learning Objective: 02-06 Record adjusting journal entries in general journal format, post entries, and prepare an adjusted trial balance.
Bloom's: Analyze
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43) The adjusting entry required when amounts previously recorded as deferred revenues are recognized includes:
A) A debit to a liability.
B) A debit to an asset.
C) A credit to a liability.
D) A credit to an asset.

Answer: A
Difficulty: 2 Medium
Topic: Analyze updating-Record adjusting entry
Learning Objective: 02-06 Record adjusting journal entries in general journal format, post entries, and prepare an adjusted trial balance.
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44) Which of the following accounts has a balance whereby credits normally exceed debits?
A) Salaries expense.
B) Interest payable.
C) Land.
D) Prepaid rent.

Answer: B
Difficulty: 1 Easy
Topic: Account relationships and records; Determine account balance-Analyze entries
Learning Objective: 02-01 Understand routine economic events-transactions-and determine their effects on a company's financial position and on specific accounts.; 02-06 Record adjusting journal entries in general journal format, post entries, and prepare an adjusted trial balance.; 02-04 Post the effects of journal entries to general ledger accounts and prepare an unadjusted trial balance.
Bloom's: Remember
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45) When a tenant makes an end-of-period adjusting entry credit to the "Prepaid rent" account:
A) (S)he usually debits cash.
B) (S)he usually debits an expense account.
C) (S)he debits a liability account.
D) (S)he credits an owners' equity account.

Answer: B
Difficulty: 2 Medium
Topic: Analyze updating-Record adjusting entry
Learning Objective: 02-06 Record adjusting journal entries in general journal format, post entries, and prepare an adjusted trial balance.
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46) When a business makes an end-of-period adjusting entry with a debit to supplies expense, the usual credit entry is made to:
A) Accounts payable.
B) Supplies.
C) Cash.
D) Retained earnings.

Answer: B
Difficulty: 1 Easy
Topic: Analyze updating-Record adjusting entry
Learning Objective: 02-06 Record adjusting journal entries in general journal format, post entries, and prepare an adjusted trial balance.
Bloom's: Analyze
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47) The adjusting entry required to record accrued expenses includes:
A) A credit to cash.
B) A debit to an asset.
C) A credit to an asset.
D) A credit to liability.

Answer: D
Difficulty: 2 Medium
Topic: Analyze updating-Record adjusting entry
Learning Objective: 02-06 Record adjusting journal entries in general journal format, post entries, and prepare an adjusted trial balance.
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48) Carolina Mills purchased $270,000 in supplies this year. The supplies account increased by $10,000 during the year to an ending balance of $66,000. What was supplies expense for Carolina Mills during the year?
A) $300,000.
B) $280,000.
C) $260,000.
D) $240,000.

Answer: C
Explanation:

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

Supplies expense = $56,000 + $270,000 – $66,000 = $260,000
Difficulty: 2 Medium
Topic: Determine account balance-Analyze entries; Convert cash basis to accrual basis
Learning Objective: 02-06 Record adjusting journal entries in general journal format, post entries, and prepare an adjusted trial balance.; 02-09 Convert from cash-basis net income to accrual-basis net income.
Bloom's: Analyze
AACSB: Analytical Thinking
AICPA/Accessibility: BB Critical Thinking; FN Measurement / Keyboard Navigation

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Intermediate Accounting 10th edition Spiceland Test Bank

49) Yummy Foods purchased a two-year fire and extended coverage insurance policy on August 1, 2021, and charged the $4,200 premium to Insurance expense. At its December 31, 2021, year-end, Yummy Foods would record which of the following adjusting entries?

A)

Insurance expense	875	
Prepaid insurance		875

B)

Prepaid insurance	875	
Insurance expense		875

C)

Insurance expense	875	
Prepaid insurance	3,325	
Insurance payable		4,200

D)

Prepaid insurance	3,325	
Insurance expense		3,325

Answer: D

Explanation:

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

Unexpired at 12/31: $4,200 × 19/24 = $3,325

Difficulty: 2 Medium

Topic: Analyze updating-Record adjusting entry; Convert cash basis to accrual basis

Learning Objective: 02-06 Record adjusting journal entries in general journal format, post entries, and prepare an adjusted trial balance.; 02-09 Convert from cash-basis net income to accrual-basis net income.

Bloom's: Analyze; Apply

AACSB: Analytical Thinking; Knowledge Application

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Intermediate Accounting 10th edition Spiceland Test Bank

50) Tummy Foods purchased a two-year fire and extended coverage insurance policy on August 1, 2021, and charged the $4,200 premium to Prepaid insurance. At its December 31, 2021, year-end, Tummy Foods would record which of the following adjusting entries?

A)

Insurance expense	875	
Prepaid insurance		875

B)

Prepaid insurance	875	
Insurance expense		875

C)

Insurance expense	875	
Prepaid insurance	3,325	
Insurance payable		4,200

D)

Prepaid insurance	3,325	
Insurance expense		3,325

Answer: A

Explanation:

Entry on 8/1:	Prepaid insurance	4,200	
	Cash		4,200

Expired at 12/31: $4,200 × 5/24 = $875

Difficulty: 2 Medium

Topic: Analyze updating-Record adjusting entry; Convert cash basis to accrual basis

Learning Objective: 02-06 Record adjusting journal entries in general journal format, post entries, and prepare an adjusted trial balance.; 02-09 Convert from cash-basis net income to accrual-basis net income.

Bloom's: Analyze; Apply

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Intermediate Accounting 10th edition Spiceland Test Bank

51) ILP Services purchased a three-year fire insurance policy on September 1, 2021, and charged the $72,000 premium to Prepaid insurance. At its December 31, 2021, year-end, ILP Services would record an adjusting entry that includes which of the following?

A)

	Debit	Credit
Insurance expense	Yes	No
Prepaid insurance	No	Yes

B)

	Debit	Credit
Insurance expense	No	Yes
Prepaid insurance	Yes	No

C)

	Debit	Credit
Insurance expense	Yes	No
Prepaid insurance	Yes	No

D)

	Debit	Credit
Insurance expense	No	Yes
Prepaid insurance	No	Yes

Answer: A
Explanation: Expired at 12/31: $72,000 × 4/36 = $8,000

Adjusting Entry on 12/31:	Insurance expense	8,000	
	Prepaid insurance		8,000

Difficulty: 2 Medium
Topic: Analyze updating-Record adjusting entry; Convert cash basis to accrual basis
Learning Objective: 02-06 Record adjusting journal entries in general journal format, post entries, and prepare an adjusted trial balance.; 02-09 Convert from cash-basis net income to accrual-basis net income.
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Intermediate Accounting 10th edition Spiceland Test Bank

52) The employees of Persoff Publications work Monday through Friday. Every other Friday the company issues payroll checks totaling $640,000. The current pay period ends on Friday, July 3. Persoff Publications is now preparing financial statements for the fiscal year ended June 30. What is the adjusting entry to record accrued salaries at the end of June?

A)

	Debit	Credit
Prepaid salaries	No	Yes
Salaries payable	Yes	No

B)

	Debit	Credit
Salaries expense	Yes	No
Prepaid salaries	Yes	No
Salaries payable	No	Yes

C)

	Debit	Credit
Prepaid salaries	Yes	No
Salaries payable	No	Yes

D)

	Debit	Credit
Salaries expense	Yes	No
Salaries payable	No	Yes

Answer: D
Explanation: Amount accrued: $640,000 × 7/10 (7 days of 10 days to be paid) = $448,000

Adjusting Entry on 6/30:	Salaries expense	448,000	
	Salaries payable		448,000

Difficulty: 2 Medium
Topic: Analyze updating-Record adjusting entry
Learning Objective: 02-06 Record adjusting journal entries in general journal format, post entries, and prepare an adjusted trial balance.
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Intermediate Accounting 10th edition Spiceland Test Bank

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

A)

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

B)

Salaries expense	6,400	
Salaries payable		6,400

C)

Prepaid salaries	9,600	
Salaries payable		9,600

D)

Salaries expense	22,400	
Salaries payable		22,400

Answer: D
Explanation: Amount accrued: $32,000 × 7/10 (7 days of 10 days to be paid) = $22,400
Difficulty: 2 Medium
Topic: Analyze updating-Record adjusting entry
Learning Objective: 02-06 Record adjusting journal entries in general journal format, post entries, and prepare an adjusted trial balance.
Bloom's: Analyze; Apply
AACSB: Analytical Thinking; Knowledge Application
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Intermediate Accounting 10th edition Spiceland Test Bank

54) On September 1, 2021, Fortune Magazine sold 600 one-year subscriptions for $81 each. The total amount received was credited to Deferred subscription revenue. What is the required adjusting entry at December 31, 2021?

A)

Deferred subscription revenue	48,600	
Subscription revenue		16,200
Prepaid subscriptions		32,400

B)

Deferred subscription revenue	16,200	
Subscription revenue		16,200

C)

Deferred subscription revenue	16,200	
Subscription payable		16,200

D)

Deferred subscription revenue	32,400	
Subscription revenue		32,400

Answer: B

Explanation:

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

Amount recorded as revenue: $48,600 × 4/12 (4 months expired) = $16,200

Difficulty: 2 Medium

Topic: Analyze updating-Record adjusting entry

Learning Objective: 02-06 Record adjusting journal entries in general journal format, post entries, and prepare an adjusted trial balance.

Bloom's: Analyze; Apply

AACSB: Analytical Thinking; Knowledge Application

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55) Mama's Pizza Shoppe borrowed $8,000 at 9% interest on May 1, 2021, with principal and interest due on October 31, 2022. The company's fiscal year ends June 30, 2021. What adjusting entry is necessary on June 30, 2021?
A) No entry.
B)

Interest expense	240	
Interest payable		240

C)

Interest expense	120	
Interest payable		120

D)

Prepaid interest	120	
Interest payable		120

Answer: C
Explanation: Accrued interest expense: $8,000 × 9% × 2/12 = $120
Difficulty: 2 Medium
Topic: Analyze updating-Record adjusting entry
Learning Objective: 02-06 Record adjusting journal entries in general journal format, post entries, and prepare an adjusted trial balance.
Bloom's: Analyze; Apply
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56) On September 15, 2021, Oliver's Mortuary received a $6,000, nine-month note bearing interest at an annual rate of 10% from the estate of Jay Hendrix for services rendered. Oliver's has a December 31 year-end. What adjusting entry will the company record on December 31, 2021?

A)

Interest receivable	175	
Interest revenue		175

B)

Interest receivable	230	
Interest revenue		230

C)

Interest receivable	175	
Notes receivable		175

D)

Interest receivable	600	
Interest revenue		175
Cash		425

Answer: A
Explanation: Accrued interest revenue: $6,000 × 10% × 3.5/12 = $175
Difficulty: 2 Medium
Topic: Analyze updating-Record adjusting entry
Learning Objective: 02-06 Record adjusting journal entries in general journal format, post entries, and prepare an adjusted trial balance.
Bloom's: Analyze; Apply
AACSB: Analytical Thinking; Knowledge Application
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Intermediate Accounting 10th edition Spiceland Test Bank

57) The debits and credits from the journal entries are posted to the general ledger accounts only for:
A) transactions occurring during the reporting period.
B) closing entries.
C) adjusting entries and closing entries.
D) all journal entries.

Answer: D
Difficulty: 1 Easy
Topic: Post entries to ledger
Learning Objective: 02-04 Post the effects of journal entries to general ledger accounts and prepare an unadjusted trial balance.
Bloom's: Remember
AACSB: Reflective Thinking
AICPA/Accessibility: BB Critical Thinking / Keyboard Navigation

58) Eve's Apples opened its business on January 1, 2021, and paid for two insurance policies effective that date. The policy for equipment damage was $36,000 for 18 months, and the crop damage policy was $12,000 for a two-year term. What is the balance in Eve's prepaid insurance as of December 31, 2021?
A) $9,000.
B) $18,000.
C) $30,000.
D) $48,000.

Answer: B
Explanation:
For remaining months on the policies:

Prepaid equipment insurance: $36,000 × 6/18	$ 12,000
Prepaid crop damage insurance: $12,000 × 12/24	6,000
Total prepaid insurance at 12/31/2021	$ 18,000

Difficulty: 3 Hard
Topic: Determine account balance-Analyze entries; Convert cash basis to accrual basis
Learning Objective: 02-06 Record adjusting journal entries in general journal format, post entries, and prepare an adjusted trial balance.; 02-09 Convert from cash-basis net income to accrual-basis net income.
Bloom's: Analyze
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59) Fink Insurance collected premiums of $18,000,000 from its customers during the current year. The adjusted balance in the Deferred premiums revenue account increased from $6 million to $8 million dollars during the year. What is Fink's revenue from insurance premiums recognized for the current year?
A) $10,000,000.
B) $16,000,000.
C) $18,000,000.
D) $20,000,000.

Answer: B
Explanation:

Cash collections	$ 18,000,000
Deduct increase in deferred premiums revenue	(2,000,000)
Insurance premium revenue	$ 16,000,000

Difficulty: 2 Medium
Topic: Determine account balance-Analyze entries; Convert cash basis to accrual basis
Learning Objective: 02-06 Record adjusting journal entries in general journal format, post entries, and prepare an adjusted trial balance.; 02-09 Convert from cash-basis net income to accrual-basis net income.
Bloom's: Analyze
AACSB: Analytical Thinking
AICPA/Accessibility: BB Critical Thinking; FN Measurement / Keyboard Navigation

60) On November 1, 2021, Tim's Toys borrows $30,000,000 at 9% to finance the holiday sales season. The note is for a six-month term and both principal and interest are payable at maturity. What is the balance of interest payable for the loan as of December 31, 2021?
A) $112,500.
B) $225,000.
C) $450,000.
D) $1,350,000.

Answer: C
Explanation: Interest payable = $30,000,000 × 9% × 2/12 = $450,000
Difficulty: 2 Medium
Topic: Analyze updating-Record adjusting entry; Determine account balance-Analyze entries
Learning Objective: 02-06 Record adjusting journal entries in general journal format, post entries, and prepare an adjusted trial balance.
Bloom's: Analyze
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Intermediate Accounting 10th edition Spiceland Test Bank

61) An economic resource of an entity is:
A) A revenue.
B) An asset.
C) A liability.
D) A contra asset until used.

Answer: B
Difficulty: 1 Easy
Topic: Account relationships and records
Learning Objective: 02-01 Understand routine economic events-transactions-and determine their effects on a company's financial position and on specific accounts.
Bloom's: Remember
AACSB: Reflective Thinking
AICPA/Accessibility: BB Critical Thinking / Keyboard Navigation

62) Cost of goods sold is:
A) An asset account.
B) A revenue account.
C) An expense account.
D) A permanent equity account.

Answer: C
Difficulty: 1 Easy
Topic: Analyze transaction-Record journal entry
Learning Objective: 02-03 Analyze and record transactions using journal entries.
Bloom's: Remember
AACSB: Reflective Thinking
AICPA/Accessibility: BB Critical Thinking / Keyboard Navigation

63) The balance in retained earnings at the end of the year is determined by retained earnings at the beginning of the year:
A) Plus revenues, minus liabilities.
B) Plus accruals, minus deferrals.
C) Plus net income, minus dividends.
D) Plus assets, minus liabilities.

Answer: C
Difficulty: 1 Easy
Topic: Accounting equation; Financial statement–Shareholders equity
Learning Objective: 02-01 Understand routine economic events-transactions-and determine their effects on a company's financial position and on specific accounts.; 02-07 Describe the four basic financial statements.
Bloom's: Remember
AACSB: Reflective Thinking
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64) The purpose of "posting" journal entries is
A) provide a chronological record of all economic events affecting the firm.
B) ensure that all accounts are up to date prior to preparing financial statements.
C) ensure that debits equal credits in the trial balance.
D) reflect the information in journal entries in ledger accounts.

Answer: D
Difficulty: 1 Easy
Topic: Post entries to ledger
Learning Objective: 02-04 Post the effects of journal entries to general ledger accounts and prepare an unadjusted trial balance.
Bloom's: Remember
AACSB: Reflective Thinking
AICPA/Accessibility: BB Critical Thinking / Keyboard Navigation

65) Dave's Duds reported cost of goods sold of $2,000,000 this year. The inventory account increased by $200,000 during the year to an ending balance of $400,000. What was the cost of merchandise that Dave's purchased during the year?
A) $1,600,000.
B) $1,800,000.
C) $2,200,000.
D) $2,400,000.

Answer: C
Explanation:

Inventory		
Opening Bal.	200,000	2,000,000To cost of goods sold
Purchases	?	
Ending Bal.	400,000	

Purchases = $2,000,000 – $200,000 + $400,000 = $2,200,000
Difficulty: 2 Medium
Topic: Determine account balance-Analyze entries
Learning Objective: 02-03 Analyze and record transactions using journal entries.; 02-09 Convert from cash-basis net income to accrual-basis net income.
Bloom's: Analyze
AACSB: Analytical Thinking
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Intermediate Accounting 10th edition Spiceland Test Bank

66) Permanent accounts do **not** include:
A) Interest expense.
B) Salaries payable.
C) Prepaid rent.
D) Deferred sales revenue.

Answer: A
Difficulty: 2 Medium
Topic: Account relationships and records; The closing process
Learning Objective: 02-01 Understand routine economic events-transactions-and determine their effects on a company's financial position and on specific accounts.; 02-08 Explain the closing process.
Bloom's: Analyze
AACSB: Analytical Thinking
AICPA/Accessibility: BB Critical Thinking / Keyboard Navigation

67) Permanent accounts do **not** include:
A) Cost of goods sold.
B) Inventory.
C) Current liabilities.
D) Accumulated depreciation.

Answer: A
Difficulty: 2 Medium
Topic: Account relationships and records; The closing process
Learning Objective: 02-01 Understand routine economic events-transactions-and determine their effects on a company's financial position and on specific accounts.; 02-08 Explain the closing process.
Bloom's: Analyze
AACSB: Analytical Thinking
AICPA/Accessibility: BB Critical Thinking / Keyboard Navigation

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

Answer: B
Difficulty: 2 Medium
Topic: The closing process
Learning Objective: 02-08 Explain the closing process.
Bloom's: Understand
AACSB: Reflective Thinking
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69) Temporary accounts do **not** include:
A) Salaries payable.
B) Depreciation expense.
C) Supplies expense.
D) Cost of goods sold.

Answer: A
Difficulty: 2 Medium
Topic: Account relationships and records; The closing process
Learning Objective: 02-01 Understand routine economic events-transactions-and determine their effects on a company's financial position and on specific accounts.; 02-08 Explain the closing process.
Bloom's: Analyze
AACSB: Analytical Thinking
AICPA/Accessibility: BB Critical Thinking / Keyboard Navigation

70) When converting an income statement from a cash basis to an accrual basis, expenses:
A) Exceed cash payments to suppliers.
B) Equal cash payments to suppliers.
C) Are less than cash payments to suppliers.
D) May exceed or be less than cash payments to suppliers.

Answer: D
Difficulty: 2 Medium
Topic: Convert cash basis to accrual basis
Learning Objective: 02-09 Convert from cash-basis net income to accrual-basis net income.
Bloom's: Analyze
AACSB: Analytical Thinking
AICPA/Accessibility: BB Critical Thinking / Keyboard Navigation

71) When the amount of revenue collected in advance decreases during an accounting period:
A) Accrual-basis revenues exceed cash collections from customers.
B) Accrual-basis net income exceeds cash-basis net income.
C) Accrual-basis revenues are less than cash collections from customers.
D) Accrual-basis net income is less than cash-basis net income.

Answer: A
Difficulty: 3 Hard
Topic: Convert cash basis to accrual basis
Learning Objective: 02-09 Convert from cash-basis net income to accrual-basis net income.
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72) When converting an income statement from a cash basis to an accrual basis, which of the following is **incorrect**?
A) An adjustment for depreciation reduces net income.
B) A decrease in salaries payable decreases net income.
C) A reduction in prepaid expenses decreases net income.
D) An increase in accrued payables decreases net income.

Answer: B
Difficulty: 2 Medium
Topic: Convert cash basis to accrual basis
Learning Objective: 02-09 Convert from cash-basis net income to accrual-basis net income.
Bloom's: Analyze
AACSB: Analytical Thinking
AICPA/Accessibility: BB Critical Thinking / Keyboard Navigation

73) Molly's Auto Detailers maintains its records on the cash basis. During 2021, Molly's collected $72,000 from customers and paid $21,000 in expenses. Depreciation expense of $5,000 would have been recorded on the accrual basis. Over the course of the year, accounts receivable increased $4,000, prepaid expenses decreased $2,000, and accrued liabilities decreased $1,000. Molly's accrual-basis net income was:
A) $38,000.
B) $54,000.
C) $49,000.
D) $42,000.

Answer: C
Explanation:

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

Difficulty: 3 Hard
Topic: Convert cash basis to accrual basis
Learning Objective: 02-09 Convert from cash-basis net income to accrual-basis net income.
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74) Pat's Custom Tuxedo Shop maintains its records on the cash basis. During this past year Pat's collected $42,000 in tailoring fees, and paid $14,000 in expenses. Depreciation expense totaled $2,000. Accounts receivable increased $1,500, supplies increased $4,000, and accrued liabilities increased $2,500. Pat's accrual-basis net income was:
A) $18,000.
B) $34,000.
C) $23,000.
D) $29,000.

Answer: D
Explanation:

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

Difficulty: 3 Hard
Topic: Convert cash basis to accrual basis
Learning Objective: 02-09 Convert from cash-basis net income to accrual-basis net income.
Bloom's: Analyze; Apply
AACSB: Analytical Thinking; Knowledge Application
AICPA/Accessibility: BB Critical Thinking; FN Measurement / Keyboard Navigation

75) The Hamada Company sales for 2021 totaled $150,000 and purchases totaled $95,000. Selected January 1, 2021, balances were: accounts receivable, $18,000; inventory, $14,000; and accounts payable, $12,000. December 31, 2021, balances were: accounts receivable, $16,000; inventory, $15,000; and accounts payable, $13,000. Net cash flows from these activities were:
A) $45,000.
B) $55,000.
C) $58,000.
D) $74,000.

Answer: C
Difficulty: 3 Hard
Topic: Convert cash basis to accrual basis
Learning Objective: 02-09 Convert from cash-basis net income to accrual-basis net income.
Bloom's: Analyze; Apply
AACSB: Analytical Thinking; Knowledge Application
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76) When the amount of interest receivable decreases during an accounting period:
A) Accrual-basis interest revenue exceeds cash collection from borrowers.
B) Accrual-basis net income exceeds cash-basis net income.
C) Accrual-basis interest revenue is less than cash collection from borrowers.
D) Accrual-basis net income is less than cash-basis net income.

Answer: C
Difficulty: 3 Hard
Topic: Convert cash basis to accrual basis
Learning Objective: 02-09 Convert from cash-basis net income to accrual-basis net income.
Bloom's: Analyze
AACSB: Analytical Thinking
AICPA/Accessibility: BB Critical Thinking; FN Measurement / Keyboard Navigation

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

Answer: B
Difficulty: 2 Medium
Topic: Convert cash basis to accrual basis
Learning Objective: 02-09 Convert from cash-basis net income to accrual-basis net income.
Bloom's: Analyze
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78) Compared to the accrual basis of accounting, the cash basis of accounting produces a higher amount of income by the net decrease during the accounting period of:

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

A) Option a
B) Option b
C) Option c
D) Option d

Answer: A
Difficulty: 3 Hard
Topic: Convert cash basis to accrual basis
Learning Objective: 02-09 Convert from cash-basis net income to accrual-basis net income.
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79) On June 1, Royal Corp. began operating a service company with an initial cash investment by shareholders of $2,000,000. The company provided $6,400,000 of services in June and received full payment in July. Royal also incurred expenses of $3,000,000 in June that were paid in August. During June, Royal paid its shareholders cash dividends of $1,000,000. What was the company's income before income taxes for the two months ended July 31 under the following methods of accounting?

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

A) Option a
B) Option b
C) Option c
D) Option d

Answer: C
Explanation:

Collections	$ 6,400,000	(Cash basis income)
Expenses incurred but not paid	(3,000,000)	
Accrual basis net income	$ 3,400,000	

Investment by shareholders and dividends to shareholders do not affect net income for either basis of accounting.
Difficulty: 3 Hard
Topic: Convert cash basis to accrual basis
Learning Objective: 02-09 Convert from cash-basis net income to accrual-basis net income.
Bloom's: Apply
AACSB: Analytical Thinking; Knowledge Application
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80) When Castle Corporation pays insurance premiums, the transaction is recorded as a debit to prepaid insurance. Additional information for the year ended December 31 is as follows:

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

What was the total amount of cash paid by Castle for insurance premiums during the year?
A) $218,750
B) $166,250
C) $210,000
D) $227,500

Answer: D
Explanation:

Prepaid Insurance

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

Cash paid for insurance = $218,750 – $52,500 + $ 61,250 = $ 227,500
Difficulty: 2 Medium
Topic: Determine account balance-Analyze entries
Learning Objective: 02-09 Convert from cash-basis net income to accrual-basis net income.
Bloom's: Analyze
AACSB: Analytical Thinking
AICPA/Accessibility: BB Critical Thinking; FN Measurement / Keyboard Navigation

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

Answer: D
Difficulty: 1 Easy
Topic: Accounting processing cycle steps
Learning Objective: 02-02 Describe the steps in the accounting processing cycle.
Bloom's: Remember
AACSB: Reflective Thinking
AICPA/Accessibility: FN Measurement / Keyboard Navigation

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

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

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Answer:

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

Difficulty: 1 Easy
Topic: Analyze updating-Identify type of adjustment; Trial balance—Adjusted; Trial balance—Unadjusted; The closing process
Learning Objective: 02-04 Post the effects of journal entries to general ledger accounts and prepare an unadjusted trial balance.; 02-05 Identify and describe the different types of adjusting journal entries.; 02-06 Record adjusting journal entries in general journal format; post entries; and prepare an adjusted trial balance.; 02-08 Explain the closing process.
Bloom's: Understand
AACSB: Reflective Thinking
AICPA/Accessibility: BB Critical Thinking

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

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

Answer:

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

Difficulty: 1 Easy
Topic: Analyze updating-Identify type of adjustment; Accounting processing cycle steps; Financial statement—Cash flow; Financial statement—Balance sheet; Accounting equation; The closing process
Learning Objective: 02-01 Understand routine economic events-transactions-and determine their effects on a company's financial position and on specific accounts.; 02-02 Describe the steps in the accounting processing cycle.; 02-05 Identify and describe the different types of adjusting journal entries.; 02-07 Describe the four basic financial statements.; 02-08 Explain the closing process.
Bloom's: Understand
AACSB: Reflective Thinking
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84) Listed below are five terms followed by a list of phrases that describe or characterize each of the terms. Match each phrase with the correct term.

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

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Answer:

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

Difficulty: 2 Medium
Topic: Accounting equation; Analyze transaction-Record journal entry; Analyze updating-Identify type of adjustment
Learning Objective: 02-03 Analyze and record transactions using journal entries.; 02-06 Record adjusting journal entries in general journal format; post entries; and prepare an adjusted trial balance.
Bloom's: Understand
AACSB: Reflective Thinking
AICPA/Accessibility: BB Critical Thinking

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

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

Answer:

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

Difficulty: 1 Easy
Topic: Account relationships and records; Accounting processing cycle steps; The closing process
Learning Objective: 02-01 Understand routine economic events-transactions-and determine their effects on a company's financial position and on specific accounts.; 02-02 Describe the steps in the accounting processing cycle.; 02-08 Explain the closing process.
Bloom's: Understand
AACSB: Reflective Thinking
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86) Listed below are five terms followed by a list of phrases that describe or characterize each of the terms. Match each phrase with the correct term.

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

Answer:

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

Difficulty: 1 Easy
Topic: Accounting processing cycle steps; Subsidiary ledger-Special journal—App C; Accounting equation
Learning Objective: 02-02 Describe the steps in the accounting processing cycle.; 02-Appendix 2C Subsidiary Ledgers and Special Journals.
Bloom's: Understand
AACSB: Reflective Thinking
AICPA/Accessibility: BB Critical Thinking

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

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

Answer:

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

Difficulty: 1 Easy
Topic: Accounting processing cycle steps; Subsidiary ledger-Special journal—App C; Account relationships and records; Accounting equation
Learning Objective: 02-02 Describe the steps in the accounting processing cycle.; 02-Appendix 2C Subsidiary Ledgers and Special Journals.
Bloom's: Understand
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88) Listed below are 10 terms followed by a list of phrases that describe or characterize the terms. Match each phrase with the correct term.

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

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Answer:

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

Difficulty: 2 Medium
Topic: Analyze updating-Identify type of adjustment; Trial balance—Unadjusted; Accounting processing; cycle steps; Accounting equation; Account relationships and records; The closing process
Learning Objective: 02-01 Understand routine economic events-transactions-and determine their effects on a company's financial position and on specific accounts.; 02-02 Describe the steps in the accounting processing cycle.; 02-04 Post the effects of journal entries to general ledger accounts and prepare an unadjusted trial balance.; 02-05 Identify and describe the different types of adjusting journal entries.; 02-08 Explain the closing process.
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Use this information to answer the following questions:

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

Required:

In column A, indicate whether a debit will:

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

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

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

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

89) Office equipment

Answer:

	Effect	**Classification**
Office equipment	1	2

Difficulty: 2 Medium
Topic: Analyze transaction-Record journal entry; Accounting equation; Distinguish among financial statements
Learning Objective: 02-01 Understand routine economic events-transactions-and determine their effects on a company's financial position and on specific accounts.; 02-07 Describe the four basic financial statements.
Bloom's: Analyze
AACSB: Analytical Thinking
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90) Notes payable (short-term)

Answer:

	Effect	Classification
Notes payable (short-term)	2	3

Difficulty: 2 Medium
Topic: Analyze transaction-Record journal entry; Accounting equation; Distinguish among financial statements
Learning Objective: 02-01 Understand routine economic events-transactions-and determine their effects on a company's financial position and on specific accounts.; 02-07 Describe the four basic financial statements.
Bloom's: Analyze
AACSB: Analytical Thinking
AICPA/Accessibility: BB Critical Thinking; FN Measurement

91) Cost of goods sold

Answer:

	Effect	Classification
Cost of goods sold	1	7

Difficulty: 2 Medium
Topic: Analyze transaction-Record journal entry; Accounting equation; Distinguish among financial statements
Learning Objective: 02-01 Understand routine economic events-transactions-and determine their effects on a company's financial position and on specific accounts.; 02-07 Describe the four basic financial statements.
Bloom's: Analyze
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92) Accounts receivable

Answer:

	Effect	Classification
Accounts receivable	1	1

Difficulty: 2 Medium
Topic: Analyze transaction-Record journal entry; Accounting equation; Distinguish among financial statements
Learning Objective: 02-01 Understand routine economic events-transactions-and determine their effects on a company's financial position and on specific accounts.; 02-07 Describe the four basic financial statements.
Bloom's: Analyze
AACSB: Analytical Thinking
AICPA/Accessibility: BB Critical Thinking; FN Measurement

93) Inventory

Answer:

	Effect	Classification
Inventory	1	1

Difficulty: 2 Medium
Topic: Analyze transaction-Record journal entry; Accounting equation; Distinguish among financial statements
Learning Objective: 02-01 Understand routine economic events-transactions-and determine their effects on a company's financial position and on specific accounts.; 02-07 Describe the four basic financial statements.
Bloom's: Analyze
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94) Deferred rent revenue

Answer:

	Effect	Classification
Deferred rent revenue	2	3

Difficulty: 2 Medium
Topic: Analyze transaction-Record journal entry; Accounting equation; Distinguish among financial statements
Learning Objective: 02-01 Understand routine economic events-transactions-and determine their effects on a company's financial position and on specific accounts.; 02-07 Describe the four basic financial statements.
Bloom's: Analyze
AACSB: Analytical Thinking
AICPA/Accessibility: BB Critical Thinking; FN Measurement

95) Salaries payable

Answer:

	Effect	Classification
Salaries payable	2	3

Difficulty: 2 Medium
Topic: Analyze transaction-Record journal entry; Accounting equation; Distinguish among financial statements
Learning Objective: 02-01 Understand routine economic events-transactions-and determine their effects on a company's financial position and on specific accounts.; 02-07 Describe the four basic financial statements.
Bloom's: Analyze
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96) Retained earnings

Answer:

	Effect	Classification
Retained earnings	2	5

Difficulty: 2 Medium
Topic: Analyze transaction-Record journal entry; Accounting equation; Distinguish among financial statements
Learning Objective: 02-01 Understand routine economic events-transactions-and determine their effects on a company's financial position and on specific accounts.; 02-07 Describe the four basic financial statements.
Bloom's: Analyze
AACSB: Analytical Thinking
AICPA/Accessibility: BB Critical Thinking; FN Measurement

97) Interest revenue

Answer:

	Effect	Classification
Interest revenue	2	6

Difficulty: 2 Medium
Topic: Analyze transaction-Record journal entry; Accounting equation; Distinguish among financial statements
Learning Objective: 02-01 Understand routine economic events-transactions-and determine their effects on a company's financial position and on specific accounts.; 02-07 Describe the four basic financial statements.
Bloom's: Analyze
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98) Supplies expense

Answer:

	Effect	Classification
Supplies expense	1	7

Difficulty: 2 Medium
Topic: Analyze transaction-Record journal entry; Accounting equation; Distinguish among financial statements
Learning Objective: 02-01 Understand routine economic events-transactions-and determine their effects on a company's financial position and on specific accounts.; 02-07 Describe the four basic financial statements.
Bloom's: Analyze
AACSB: Analytical Thinking
AICPA/Accessibility: BB Critical Thinking; FN Measurement

99) Prepaid rent

Answer:

	Effect	Classification
Prepaid rent	1	1

Difficulty: 2 Medium
Topic: Analyze transaction-Record journal entry; Accounting equation; Distinguish among financial statements
Learning Objective: 02-01 Understand routine economic events-transactions-and determine their effects on a company's financial position and on specific accounts.; 02-07 Describe the four basic financial statements.
Bloom's: Analyze
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100) Common stock

Answer:

	Effect	Classification
Common stock	2	5

Difficulty: 2 Medium
Topic: Analyze transaction-Record journal entry; Accounting equation; Distinguish among financial statements
Learning Objective: 02-01 Understand routine economic events-transactions-and determine their effects on a company's financial position and on specific accounts.; 02-07 Describe the four basic financial statements.
Bloom's: Analyze
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Use this information to answer the following questions:

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

Required:

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

TRANSACTION	Account(s) debited	Account(s) credited	Transaction type
EXAMPLE: Sold $110,000,000 in common stock for cash.	1100	3100	1

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

Answer:

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

Difficulty: 2 Medium
Topic: Analyze transaction-Record journal entry
Learning Objective: 02-03 Analyze and record transactions using journal entries.
Bloom's: Analyze
AACSB: Analytical Thinking
AICPA/Accessibility: BB Critical Thinking; FN Measurement

102) Invested idle cash in short-term money market funds.

Answer:

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

Difficulty: 2 Medium
Topic: Analyze transaction-Record journal entry
Learning Objective: 02-03 Analyze and record transactions using journal entries.
Bloom's: Analyze
AACSB: Analytical Thinking
AICPA/Accessibility: BB Critical Thinking; FN Measurement

103) Purchased inventory on account.

Answer:

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

Difficulty: 2 Medium
Topic: Analyze transaction-Record journal entry
Learning Objective: 02-03 Analyze and record transactions using journal entries.
Bloom's: Analyze
AACSB: Analytical Thinking
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104) Sold inventory on account.

Answer:

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

Difficulty: 2 Medium
Topic: Analyze transaction-Record journal entry
Learning Objective: 02-03 Analyze and record transactions using journal entries.
Bloom's: Analyze
AACSB: Analytical Thinking
AICPA/Accessibility: BB Critical Thinking; FN Measurement

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

Answer:

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

Difficulty: 2 Medium
Topic: Analyze transaction-Record journal entry
Learning Objective: 02-03 Analyze and record transactions using journal entries.
Bloom's: Analyze
AACSB: Analytical Thinking
AICPA/Accessibility: BB Critical Thinking; FN Measurement

106) Accrued the interest recognized but not collected on notes receivable.

Answer:

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

Difficulty: 2 Medium
Topic: Analyze updating-Record adjusting entry
Learning Objective: 02-06 Record adjusting journal entries in general journal format, post entries, and prepare an adjusted trial balance.
Bloom's: Analyze
AACSB: Analytical Thinking
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107) Collected a note receivable at maturity, including the interest that had already been accrued.

Answer:

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

Difficulty: 2 Medium
Topic: Analyze transaction-Record journal entry
Learning Objective: 02-03 Analyze and record transactions using journal entries.
Bloom's: Analyze
AACSB: Analytical Thinking
AICPA/Accessibility: BB Critical Thinking; FN Measurement

108) Collected cash on account from customers.

Answer:

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

Difficulty: 2 Medium
Topic: Analyze transaction-Record journal entry
Learning Objective: 02-03 Analyze and record transactions using journal entries.
Bloom's: Analyze
AACSB: Analytical Thinking
AICPA/Accessibility: BB Critical Thinking; FN Measurement

109) Sold inventory for cash.

Answer:

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

Difficulty: 2 Medium
Topic: Analyze transaction-Record journal entry
Learning Objective: 02-03 Analyze and record transactions using journal entries.
Bloom's: Analyze
AACSB: Analytical Thinking
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110) Received payment for services to be performed next year.

Answer:

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

Difficulty: 2 Medium
Topic: Analyze transaction-Record journal entry
Learning Objective: 02-03 Analyze and record transactions using journal entries.
Bloom's: Analyze
AACSB: Analytical Thinking
AICPA/Accessibility: BB Critical Thinking; FN Measurement

111) Salaries have been recognized but are unpaid at the end of an accounting period.

Answer:

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

Difficulty: 2 Medium
Topic: Analyze updating-Record adjusting entry
Learning Objective: 02-06 Record adjusting journal entries in general journal format, post entries, and prepare an adjusted trial balance.
Bloom's: Analyze
AACSB: Analytical Thinking
AICPA/Accessibility: BB Critical Thinking; FN Measurement

112) Closed the dividends account.

Answer:

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

Difficulty: 2 Medium
Topic: The closing process
Learning Objective: 02-08 Explain the closing process.
Bloom's: Analyze
AACSB: Analytical Thinking
AICPA/Accessibility: BB Critical Thinking; FN Measurement

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113) Accrued property taxes were paid.

Answer:

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

Difficulty: 2 Medium
Topic: Analyze transaction-Record journal entry
Learning Objective: 02-03 Analyze and record transactions using journal entries.
Bloom's: Analyze
AACSB: Analytical Thinking
AICPA/Accessibility: BB Critical Thinking; FN Measurement

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

Answer:

TRANSACTION	Account(s) debited	Account(s) credited	Transaction type
Declared cash dividends on common stock that will be paid in the next month.	6999	2160	1

Difficulty: 3 Hard
Topic: Analyze transaction-Record journal entry
Learning Objective: 02-03 Analyze and record transactions using journal entries.
Bloom's: Analyze
AACSB: Analytical Thinking
AICPA/Accessibility: BB Critical Thinking; FN Measurement

115) Paid rent for the next three months.

Answer:

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

Difficulty: 2 Medium
Topic: Analyze transaction-Record journal entry
Learning Objective: 02-03 Analyze and record transactions using journal entries.
Bloom's: Analyze
AACSB: Analytical Thinking
AICPA/Accessibility: BB Critical Thinking; FN Measurement

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116) Rite Shoes was involved in the transactions described below.

Required:

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

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

Answer:

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

Difficulty: 1 Easy
Topic: Analyze transaction-Record journal entry
Learning Objective: 02-03 Analyze and record transactions using journal entries.
Bloom's: Apply
AACSB: Knowledge Application
AICPA/Accessibility: BB Critical Thinking; FN Measurement

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

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

Answer:

1.	Cash	20,000	
	Common stock		20,000
2.	Prepaid rent	3,000	
	Cash		3,000
3.	Equipment	5,400	
	Notes payable		5,400
4.	Supplies inventory	1,800	
	Accounts payable		1,800
5.	Cash	800	
	Sales revenue		800
6.	Salaries expense	320	
	Cash		320
7.	Accounts payable	1,800	
	Cash		1,800
8.	Depreciation expense	50	
	Accumulated depreciation		50

Difficulty: 2 Medium
Topic: Analyze transaction-Record journal entry
Learning Objective: 02-03 Analyze and record transactions using journal entries.
Bloom's: Apply
AACSB: Knowledge Application
AICPA/Accessibility: BB Critical Thinking; FN Measurement

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118) Flint Hills, Inc. has prepared a year-end 2021 trial balance. Certain accounts in the trial balance do not reflect all activities that have occurred.

Required:

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

1. The Supplies account shows a balance of $540, but a count of supplies reveals only $210 on hand.
2. Flint Hills initially records the payments of all insurance premiums as expenses. The trial balance shows a balance of $420 in Insurance expense. A review of insurance policies reveals that $125 of insurance is unexpired.
3. Flint Hills employees work Monday through Friday, and salaries of $2,400 per week are paid each Friday. Flint Hills' year-end falls on Tuesday.
4. On December 31, 2021, Flint Hills received a utility bill for December electricity usage of $190 that will be paid in early January of 2022.

Answer:

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

Difficulty: 2 Medium
Topic: Analyze updating-Record adjusting entry
Learning Objective: 02-06 Record adjusting journal entries in general journal format, post entries, and prepare an adjusted trial balance.
Bloom's: Analyze; Apply
AACSB: Analytical Thinking; Knowledge Application
AICPA/Accessibility: BB Critical Thinking; FN Measurement

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119) The following is selected financial information for D. Kay Dental Laboratories for 2020 and 2021:

	2020	2021
Retained earnings, January 1	$53,000	?
Net income	37,000	42,000
Dividends declared and paid	15,000	18,000
Common stock	70,000	?

Kay issued 2,000 shares of additional common stock in 2021 for $20,000. There were no other shareholder transactions.

Required:

Prepare a statement of shareholders' equity for D. Kay Dental Laboratories for the year ended December 31, 2021.

Answer:

D. Kay Dental Laboratories
Statement of Shareholders' Equity
For the Year Ended December 31, 2021

	Common Stock	Retained Earnings	Total Shareholders' Equity
Balance, January 1, 2021	$70,000	$75,000*	$145,000
Issue of common stock	20,000	20,000	
Net income for 2021	42,000	42,000	
Less: Dividends		− 18,000	− 18,000
Balance, December 31, 2021	$ 90,000	$ 99,000	$189,000

* Beginning balance, Retained Earnings = Ending balance at December 31, 2020:

$53,000 + $37,000 − $15,000 = $75,000
Difficulty: 3 Hard
Topic: Financial statement—Shareholders equity
Learning Objective: 02-07 Describe the four basic financial statements.
Bloom's: Apply
AACSB: Knowledge Application
AICPA/Accessibility: BB Critical Thinking; FN Measurement

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120) The Yankel Corporation's controller prepares adjusting entries only at the end of the fiscal year. The following adjusting entries were prepared on December 31, 2021:

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

Additional information:

1. The company borrowed $30,000 on June 30, 2021. Principal and interest are due on June 30, 2022. This note is the company's only interest-bearing debt.
2. Insurance for the year on the company's office buildings is $90,000. The insurance is paid in advance.
3. On August 31, 2021, Yankel lent money to a customer. The customer signed a note with principal and interest at 9% due in one year.

Required:

Determine the following:

1. What is the interest rate on the company's note payable?
2. The 2021 insurance payment was made at the beginning of which month?
3. How much did Yankel lend its customer on August 31?

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Answer:
1. $1,800 represents six months of interest on a $30,000 note, or 50% of annual interest.
$1,800 ÷ .50 = $3,600 in annual interest
$3,600 ÷ $30,000 = **12% interest rate**

Or,
Principal × Rate × Time = Interest
$30,000 × Rate × 6/12 = $1,800
$1,800 ÷ $30,000 = .06 six-month rate
To annualize the nine month rate: .06 × 12/6 =.12 or 12%

2. $90,000 ÷ 12 months = $7,500 per month in insurance
$60,000 ÷ $7,500 = 8 months expired. The insurance was paid on **May 1**, eight months ago.

3. Principal × Rate × Time = Interest
Principal × 9% × (4/12) = $3,000
Principal × 3% = $3,000
Principal = $100,000

Or
$3,000 represents four months (September through December) in accrued interest, or $750 per month.
$750 × 12 months = $9,000 in annual interest
Principal × 9% = $9,000
Principal = $9,000 ÷ .09 = **$100,000 note**
Difficulty: 3 Hard
Topic: Analyze updating-Record adjusting entry; Determine account balance-Analyze entries
Learning Objective: 02-05 Identify and describe the different types of adjusting journal entries.; 02-06 Record adjusting journal entries in general journal format, post entries, and prepare an adjusted trial balance.
Bloom's: Analyze; Apply
AACSB: Analytical Thinking; Knowledge Application
AICPA/Accessibility: BB Critical Thinking; FN Measurement

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Use this information to answer the following questions:

Suppose that Laramie Company's adjusted trial balance ignored the following information. For each item of information, indicate what effects, if any, these omissions would have on the stated components of Laramie Company's 2021 Income Statement and 12/31/2021 Balance Sheet. Assume no income taxes.

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

N = No Effect
O = Overstated
U = Understated

121)

Additional Information	12/31/2021 Assets	12/31/2021 Liabilities	12/31/2021 Owners' Equity	2021 Net Income
$2,000 interest on a loan was not yet paid or recorded				

Answer:

Additional Information	12/31/2021 Assets	12/31/2021 Liabilities	12/31/2021 Owners' Equity	2021 Net Income
$2,000 interest on a loan was not yet paid or recorded	N	U2,000	O2,000	O2,000

Difficulty: 2 Medium
Topic: Determine account balance-Analyze entries; Distinguish among financial statements
Learning Objective: 02-06 Record adjusting journal entries in general journal format; post entries; and prepare an adjusted trial balance; 02-07 Describe the four basic financial statements.
Bloom's: Analyze
AACSB: Analytical Thinking
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122)

Additional Information	12/31/2021 Assets	12/31/2021 Liabilities	12/31/2021 Owners' Equity	2021 Net Income
The estimated uncollectible accounts receivable is now zero and should be $25,000.				

Answer:

Additional Information	12/31/2021 Assets	12/31/2021 Liabilities	12/31/2021 Owners' Equity	2021 Net Income
The estimated uncollectible accounts receivable is now zero and should be $25,000.	O25,000	N	O25,000	O25,000

Difficulty: 2 Medium
Topic: Distinguish among financial statements; Determine account balance-Analyze entries
Learning Objective: 02-06 Record adjusting journal entries in general journal format; post entries; and prepare an adjusted trial balance; 02-07 Describe the four basic financial statements.
Bloom's: Analyze
AACSB: Analytical Thinking
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123)

Additional Information	12/31/2021 Assets	12/31/2021 Liabilities	12/31/2021 Owners' Equity	2021 Net Income
$10,000 of the paid and recorded rent expense pertains to the year 2022.				

Answer:

Additional Information	12/31/2021 Assets	12/31/2021 Liabilities	12/31/2021 Owners' Equity	2021 Net Income
$10,000 of the paid and recorded rent expense pertains to the year 2022.	U10,000	N	U10,000	U10,000

Difficulty: 2 Medium
Topic: Determine account balance-Analyze entries; Distinguish among financial statements
Learning Objective: 02-06 Record adjusting journal entries in general journal format; post entries; and prepare an adjusted trial balance; 02-07 Describe the four basic financial statements.
Bloom's: Analyze
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124)

Additional Information	12/31/2021 Assets	12/31/2021 Liabilities	12/31/2021 Owners' Equity	2021 Net Income
$20,000 in depreciation on some equipment was still unrecorded.				

Answer:

Additional Information	12/31/2021 Assets	12/31/2021 Liabilities	12/31/2021 Owners' Equity	2021 Net Income
$20,000 in depreciation on some equipment was still unrecorded.	O20,000	N	O20,000	O20,000

Difficulty: 2 Medium
Topic: Distinguish among financial statements; Determine account balance-Analyze entries
Learning Objective: 02-06 Record adjusting journal entries in general journal format; post entries; and prepare an adjusted trial balance; 02-07 Describe the four basic financial statements.
Bloom's: Analyze
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125)

Additional Information	12/31/2021 Assets	12/31/2021 Liabilities	12/31/2021 Owners' Equity	2021 Net Income
$4,000 in cash dividends declared and paid in December 2021 were unrecorded.				

Answer:

Additional Information	12/31/2021 Assets	12/31/2021 Liabilities	12/31/2021 Owners' Equity	2021 Net Income
$4,000 in cash dividends declared and paid in December 2021 were unrecorded.	O4,000	N	O4,000	N

Difficulty: 2 Medium
Topic: Determine account balance-Analyze entries; Distinguish among financial statements
Learning Objective: 02-06 Record adjusting journal entries in general journal format; post entries; and prepare an adjusted trial balance; 02-07 Describe the four basic financial statements.
Bloom's: Analyze
AACSB: Analytical Thinking
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Use this information to answer the following questions:

You are reviewing O'Brian Co.'s adjusted trial balance for the year ended 12/31/2021. You notice several omissions and incorrect items during your review, some of which are noted below. For each one, you are to determine what effect, if any, these items would have on the stated components of O'Brian Co.'s 2021 Income Statement and 12/31/2021 Balance Sheet if they are not corrected or updated. Assume no income taxes.

Use the following code for your answers. Don't include dollar amounts.
N = No Effect
O = Overstated
U = Understated

126)

Additional Information	12/31/2021 Assets	12/31/2021 Liabilities	12/31/2021 Owners' Equity	2021 Net Income
Uncollectible accounts of $7,000, as a percentage of sales, are estimated at the end of the year. The entry has not been recorded.				

Answer:

Additional Information	12/31/2021 Assets	12/31/2021 Liabilities	12/31/2021 Owners' Equity	2021 Net Income
Uncollectible accounts of $7,000, as a percentage of sales, are estimated at the end of the year. The entry has not been recorded.	O	N	O	O

Difficulty: 2 Medium
Topic: Determine account balance-Analyze entries; Distinguish among financial statements
Learning Objective: 02-06 Record adjusting journal entries in general journal format; post entries; and prepare an adjusted trial balance; 02-07 Describe the four basic financial statements.
Bloom's: Analyze
AACSB: Analytical Thinking
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127)

Additional Information	12/31/2021 Assets	12/31/2021 Liabilities	12/31/2021 Owners' Equity	2021 Net Income
The journal entry for depreciation on equipment for 2021 was recorded for $48,000. The amount should have been $66,000.				

Answer:

Additional Information	12/31/2021 Assets	12/31/2021 Liabilities	12/31/2021 Owners' Equity	2021 Net Income
The journal entry for depreciation on equipment for 2021 was recorded for $48,000. The amount should have been $66,000.	O	N	O	O

Difficulty: 2 Medium
Topic: Distinguish among financial statements; Determine account balance-Analyze entries
Learning Objective: 02-06 Record adjusting journal entries in general journal format; post entries; and prepare an adjusted trial balance; 02-07 Describe the four basic financial statements.
Bloom's: Analyze
AACSB: Analytical Thinking
AICPA/Accessibility: BB Critical Thinking

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128)

Additional Information	12/31/2021 Assets	12/31/2021 Liabilities	12/31/2021 Owners' Equity	2021 Net Income
Cash dividends declared and paid on December 15, 2021, were not recorded.				

Answer:

Additional Information	12/31/2021 Assets	12/31/2021 Liabilities	12/31/2021 Owners' Equity	2021 Net Income
Cash dividends declared and paid on December 15, 2021, were not recorded.	O	N	O	N

Difficulty: 3 Hard
Topic: Determine account balance-Analyze entries; Distinguish among financial statements
Learning Objective: 02-06 Record adjusting journal entries in general journal format; post entries; and prepare an adjusted trial balance; 02-07 Describe the four basic financial statements.
Bloom's: Analyze
AACSB: Analytical Thinking
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129)

Additional Information	12/31/2021 Assets	12/31/2021 Liabilities	12/31/2021 Owners' Equity	2021 Net Income
$10,000 of the rent revenue collected and recorded as revenue this year pertains to 2022.				

Answer:

Additional Information	12/31/2021 Assets	12/31/2021 Liabilities	12/31/2021 Owners' Equity	2021 Net Income
$10,000 of the rent revenue collected and recorded as revenue this year pertains to 2022.	N	U	O	O

Difficulty: 2 Medium
Topic: Determine account balance-Analyze entries; Distinguish among financial statements
Learning Objective: 02-06 Record adjusting journal entries in general journal format; post entries; and prepare an adjusted trial balance; 02-07 Describe the four basic financial statements.
Bloom's: Analyze
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130)

Additional Information	12/31/2021 Assets	12/31/2021 Liabilities	12/31/2021 Owners' Equity	2021 Net Income
Interest recognized during the year on a note receivable was not yet collected or recorded.				

Answer:

Additional Information	12/31/2021 Assets	12/31/2021 Liabilities	12/31/2021 Owners' Equity	2021 Net Income
Interest recognized during the year on a note receivable was not yet collected or recorded.	U	N	U	U

Difficulty: 2 Medium
Topic: Determine account balance-Analyze entries; Distinguish among financial statements
Learning Objective: 02-06 Record adjusting journal entries in general journal format; post entries; and prepare an adjusted trial balance; 02-07 Describe the four basic financial statements.
Bloom's: Analyze
AACSB: Analytical Thinking
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131)

Additional Information	12/31/2021 Assets	12/31/2021 Liabilities	12/31/2021 Owners' Equity	2021 Net Income
Supplies purchased during the year for $1,000 cash were recorded by a debit to Supplies Expense and a credit to Cash. Only $200 of supplies remain at the end of the year, but no further entries have been recorded.				

Answer:

Additional Information	12/31/2021 Assets	12/31/2021 Liabilities	12/31/2021 Owners' Equity	2021 Net Income
Supplies purchased during the year for $1,000 cash were recorded by a debit to Supplies Expense and a credit to Cash. Only $200 of supplies remain at the end of the year, but no further entries have been recorded.	U	N	U	U

Difficulty: 3 Hard
Topic: Determine account balance-Analyze entries; Distinguish among financial statements
Learning Objective: 02-06 Record adjusting journal entries in general journal format; post entries; and prepare an adjusted trial balance; 02-07 Describe the four basic financial statements.
Bloom's: Analyze
AACSB: Analytical Thinking
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Use this information to answer the following questions:

The adjusted trial balance for China Tea Company at December 31, 2021, is presented below:

	Debit	Credit
Cash	10,500	
Accounts receivable	150,000	
Prepaid rent	5,000	
Inventory	25,000	
Equipment	300,000	
Accumulated depreciation–equipment		125,000
Accounts payable		30,000
Notes payable–due in three months		30,000
Salaries payable		4,000
Interest payable		9,000
Common stock		200,000
Retained earnings		50,000
Dividends	8,000	
Sales revenue		400,000
Costs of goods sold	180,000	
Salaries expense	120,000	
Rent expense	15,000	
Depreciation expense	30,000	
Interest expense	2,000	
Advertising expense	2,500	
Totals	848,000	848,000

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132) Prepare the closing entries for China Tea Company for the year ended December 31, 2021.

Answer:

1.	Sales revenue	400,000	
	Retained earnings		400,000
2.	Retained earnings	349,500	
	Cost of goods sold		180,000
	Salaries expense		120,000
	Rent expense		15,000
	Depreciation expense		30,000
	Interest expense		2,000
	Advertising expense		2,500
3.	Retained earnings	8,000	
	Dividends		8,000

Difficulty: 2 Medium
Topic: The closing process
Learning Objective: 02-08 Explain the closing process.
Bloom's: Apply
AACSB: Knowledge Application
AICPA/Accessibility: BB Critical Thinking; FN Measurement

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133) Prepare an income statement for China Tea Company for the year ended December 31, 2021.

Answer:

China Tea Company
Income Statement
For the Year Ended December 31, 2021

Sales revenue		$400,000
Cost of goods sold		180,000
Gross profit		220,000
Other expenses:		
Salaries expense	$120,000	
Rent expense	15,000	
Depreciation expense	30,000	
Interest expense	2,000	
Advertising expense	2,500	
Total other expenses		169,500
Net income		$ 50,500

Difficulty: 2 Medium
Topic: Financial statement—Income Statement
Learning Objective: 02-07 Describe the four basic financial statements.
Bloom's: Apply
AACSB: Knowledge Application
AICPA/Accessibility: BB Critical Thinking; FN Measurement

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134) Prepare a classified balance sheet for China Tea Company as of December 31, 2021.

Answer:

China Tea Company
Balance Sheet
At December 31, 2021

Assets		
Current assets:		
Cash		$ 10,500
Accounts receivable		150,000
Inventory		25,000
Prepaid rent		5,000
Total current assets		190,500
Property and equipment:		
Equipment	300,000	
Less: Accumulated depreciation	125,000	175,000
Total assets		$365,500
Liabilities and Shareholders' Equity		
Current liabilities:		
Accounts payable		$ 30,000
Notes payable		30,000
Salaries payable		4,000
Interest payable		9,000
Total current liabilities		73,000
Shareholders' equity:		
Common stock	$200,000	
Retained earnings	92,500	
Total shareholders' equity		292,500
Total liabilities and shareholders' equity		$365,500

Difficulty: 2 Medium
Topic: Financial statement—Balance sheet
Learning Objective: 02-07 Describe the four basic financial statements.
Bloom's: Apply
AACSB: Knowledge Application
AICPA/Accessibility: BB Critical Thinking; FN Measurement

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Use this information to answer the following questions:

The following information, based on the 12/31/2021 Annual Report to Shareholders of Krafty Foods ($ in millions):

Accounts payable	1,897
Accounts receivable (net)	3,131
Accrued liabilities	4,105
Cash and cash equivalents	162
Cost of goods sold	17,531
Other current payables	1,652
Current portion of long-term debt	540
Other long-term liabilities	10,311
Retained earnings as of 12/31/2021	2,391
Goodwill and other intangible assets (net)	35,957
Salaries expense	1,565
Interest and other debt expense, net	1,437
Inventories	3,026
Long-term debt	8,134
Long-term notes payable	5,000
Marketing, general and administration expenses	11,460
Operating revenues	33,875
Other current assets	687
Other noncurrent assets	3,726
Other shareholders' equity	(2,568)
Common stock	23,655
Property, plant and equipment (net)	9,109
Short-term borrowings	681

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135) Based on the information presented above, prepare the Income Statement for Krafty Foods for the year ended December 31, 2021.

Answer:

Krafty Foods
Income Statement
For the Year Ended December 31, 2021

($ in millions)	
Operating revenues	$33,875
Cost of goods sold	17,531
Gross profit	16,344
Salaries expense	1,565
Marketing, general and administration expenses	11,460
Operating income	3,319
Interest and other debt expense, net	1,437
Net income	$ 1,882

Difficulty: 2 Medium
Topic: Financial statement—Income Statement
Learning Objective: 02-07 Describe the four basic financial statements.
Bloom's: Apply
AACSB: Knowledge Application
AICPA/Accessibility: FN Measurement

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136) Based on the information presented above, prepare the 12/31/2021 Balance Sheet for Krafty Foods.

Answer:

Krafty Foods
Balance Sheet
At December 31, 2021

($ in millions)		
Assets		
Current assets:		
Cash and cash equivalents		$162
Accounts receivable (net)		3,131
Inventories		3,026
Other current assets		687
Total current assets		7,006
Property, plant and equipment (net)		9,109
Goodwill and other intangible assets (net)		35,957
Other noncurrent assets		3,726
Total assets		$55,798
Liabilities and Shareholders' Equity		
Accounts payable		$ 1,897
Accrued liabilities		4,105
Short-term borrowings		681
Other current payables		1,652
Current portion of long-term debt		540
Total current liabilities		8,875
Long-term debt		8,134
Other long-term liabilities		10,311
Long-term notes payable		5,000
Total liabilities		32,320
Common stock	$23,655	
Retained earnings	2,391	
Other shareholders' equity	(2,568)	
Total shareholders' equity		23,478
Total liabilities and shareholders' equity		$55,798

Difficulty: 3 Hard
Topic: Financial statement—Balance sheet
Learning Objective: 02-07 Describe the four basic financial statements.
Bloom's: Apply
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Use this information to answer the following questions:

The December 31, 2021 (pre-closing) adjusted trial balance for Kline Enterprises was as follows:

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

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

Kline's 2021 net income (or loss).

Answer: Kline's 2021 net income (or loss) = $76,000

Computation: 770,000 − $480,000 − $60,000 − $4,000 − $30,000 − $120,000
Difficulty: 2 Medium
Topic: Financial statement—Income Statement
Learning Objective: 02-07 Describe the four basic financial statements.
Bloom's: Apply
AACSB: Knowledge Application
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138) Assuming no income taxes, compute the following, and place your answer in the space provided:

Kline's 12/31/2021 total current assets.

Answer: Kline's 12/31/2021 total current assets = $346,000

Computation: $26,000 + $170,000 + $150,000
Difficulty: 2 Medium
Topic: Financial statement—Balance sheet
Learning Objective: 02-07 Describe the four basic financial statements.
Bloom's: Apply
AACSB: Knowledge Application
AICPA/Accessibility: FN Measurement

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

Kline's 12/31/2021 total current liabilities:

Answer: Kline's 12/31/2021 total current liabilities = $158,000

Computation: $90,000 + $60,000 + $8,000
Difficulty: 2 Medium
Topic: Financial statement—Balance sheet
Learning Objective: 02-07 Describe the four basic financial statements.
Bloom's: Apply
AACSB: Knowledge Application
AICPA/Accessibility: FN Measurement

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

Kline's 12/31/2021 total shareholders' equity.

Answer: Kline's 12/31/2021 total owners' equity = $628,000

Computation: $490,000 + $62,000 + $76,000 (Net Income), (or Total Assets − Total Liabilities)
Difficulty: 2 Medium
Topic: Financial statement—Balance sheet
Learning Objective: 02-07 Describe the four basic financial statements.
Bloom's: Apply
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141) Presented below is income statement and dividend information of the Nebraska Corporation for the year ended December 31, 2021.

Sales revenue	$620,000	Cost of goods sold	$355,000
Salaries expense	90,000	Insurance expense	20,000
Dividend revenue	3,000	Depreciation expense	18,000
Miscellaneous expense	12,000	Administrative expense	35,000
Loss on sale of investments	8,000	Rent expense	10,000
Dividends	5,000		

Required:

Prepare the necessary closing entries at December 31, 2021.

Answer:
December 31, 2021

Sales revenue	620,000	
Dividend revenue	3,000	
Retained earnings		623,000
Retained earnings	548,000	
Loss on sale of investments		8,000
Salaries expense		90,000
Miscellaneous expense		12,000
Cost of goods sold		355,000
Insurance expense		20,000
Depreciation expense		18,000
Administrative expense		35,000
Rent expense		10,000
Retained earnings	5,000	
Dividends		5,000

Difficulty: 2 Medium
Topic: The closing process
Learning Objective: 02-08 Explain the closing process.
Bloom's: Apply
AACSB: Knowledge Application
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142) Raintree Corporation maintains its records on a cash basis. At the end of each year the company's accountant obtains the necessary information to prepare accrual basis financial statements. The following cash flows occurred during the year ended December 31, 2021:

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

Selected balance sheet information:

	12/31/2020	12/31/2021
Cash	$25,000	$101,000
Accounts receivable	42,000	70,000
Inventory	60,000	82,000
Prepaid insurance	2,000	?
Prepaid rent	7,000	?
Interest receivable	1,500	?
Note receivable	50,000	50,000
Equipment	150,000	150,000
Accumulated depreciation–equipment	(40,000)	(55,000)
Accounts payable (for merchandise)	50,000	62,000
Salaries payable	20,000	28,000
Common stock	200,000	250,000
Dividends	0	6,000

Additional information:

1. On June 30, 2020, Raintree lent a customer $50,000. Interest at 6% is payable annually on each June 30. Principal is due in 2024.
2. The annual insurance payment is made in advance on March 31.
3. Annual rent on the company's facilities is paid in advance on September 30.

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Required:

1. Prepare an accrual basis income statement for 2021 (ignore income taxes).
2. Determine the following balance sheet amounts on December 31, 2021:

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

Answer:

1. Sales revenue:		
Cash collected from customers	$450,000	
Add: Increase in accounts receivable	28,000	
Sales revenue	$478,000	
Interest revenue:		
Cash received	$3,000	
Add: Amount accrued at the end of 2021 ($50,000 × .06 × 6/12)	1,500	(a)
Deduct: Amount accrued at the end of 2020	(1,500)	
Interest revenue	$3,000	
Cost of goods sold:		
Cash paid for merchandise	$220,000	
Add: Increase in accounts payable	12,000	
Purchases during 2021	232,000	
Deduct: Increase in inventory	(22,000)	
Cost of goods sold	$210,000	
Insurance expense:		
Cash paid	$9,000	
Add: Prepaid insurance expired during 2021	2,000	
Deduct: Prepaid insurance on 12/31/2021 ($9,000 × 3/12)	(2,250)	(b)
Insurance expense	$8,750	
Salaries expense:		
Cash paid	$180,000	
Add: Increase in salaries payable	8,000	
Salaries expense	$188,000	
Rent expense:		
Amount paid	$12,000	
Add: Prepaid rent on 12/31/2020 expired during 2021	7,000	
Deduct: Prepaid rent on 12/31/2021 ($12,000 × 9/12)	(9,000)	(c)
Rent expense	$10,000	
Depreciation expense: Increase in accumulated depreciation	$15,000	

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Raintree Corporation
Income statement
For the Year Ended December 31, 2021

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

2.

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

Difficulty: 3 Hard
Topic: Convert cash basis to accrual basis; Determine account balance—Analyze entries; Financial statement—Income Statement
Learning Objective: 02-07 Describe the four basic financial statements; 02-09 Convert from cash-basis net income to accrual-basis net income.
Bloom's: Analyze; Apply
AACSB: Knowledge Application
AICPA/Accessibility: BB Critical Thinking; FN Measurement

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143) Silicon Chip Company's fiscal year-end is December 31. At the end of 2021, it owed employees $22,000 in salaries that will be paid on January 7, 2022.

Required:

1. Prepare an adjusting entry to record accrued salaries, a reversing entry on January 1, 2022, and an entry to record the payment of salaries on January 7, 2022.
2. Prepare journal entries to record the accrued salaries on December 31, 2021 and the payment of salaries on January 7, 2022, assuming a reversing entry is not recorded.

Answer:
1.

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

2.

December 31–adjusting entry		
Salaries expense	22,000	
Salaries payable		22,000
January 7–payment of salaries		
Salaries payable	22,000	
Cash		22,000

Difficulty: 3 Hard
Topic: Reversing entries—Appendix B
Learning Objective: Appendix 2B Reversing Entries.
Bloom's: Analyze
AACSB: Analytical Thinking
AICPA/Accessibility: FN Measurement

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

Answer: External events involve an **exchange** between the **company** and a **separate economic entity**. Examples include purchasing inventory on account or borrowing money from a bank. Internal events directly affect the financial position of the company but **do not involve exchange transactions with another entity**. Examples include depreciation of equipment or use of supplies.
Difficulty: 2 Medium
Topic: Account relationships and records
Learning Objective: 02-01 Understand routine economic events-transactions-and determine their effects on a company's financial position and on specific accounts.
Bloom's: Understand
AACSB: Communication
AICPA/Accessibility: BB Critical Thinking

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

Answer: Deferred revenue is created when a company **receives cash** from a customer for **goods or services** that will be **provided in a future period**. Examples include magazine subscriptions received in advance by a publishing company or rent received in advance by a property leasing company. A liability exists because of the obligation to provide the service.
Difficulty: 2 Medium
Topic: Analyze updating-Identify type of adjustment; Analyze transaction-Record journal entry
Learning Objective: 02-01 Understand routine economic events-transactions-and determine their effects on a company's financial position and on specific accounts; 02-05 Identify and describe the different types of adjusting journal entries.
Bloom's: Understand
AACSB: Communication
AICPA/Accessibility: BB Critical Thinking

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

Answer: Prepaid expenses represent **assets** recorded when a **cash disbursement** creates **benefits beyond the current period**. Examples include insurance or rent paid in advance of use.
Difficulty: 2 Medium
Topic: Analyze transaction-Record journal entry; Analyze updating-Identify type of adjustment
Learning Objective: 02-01 Understand routine economic events-transactions-and determine their effects on a company's financial position and on specific accounts; 02-05 Identify and describe the different types of adjusting journal entries.
Bloom's: Understand
AACSB: Reflective Thinking
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147) What is an accrued liability?

Answer: An accrued liability results from an **expense** being **incurred prior to cash payment**. Examples include interest payable and salaries payable.
Difficulty: 2 Medium
Topic: Analyze updating-Identify type of adjustment
Learning Objective: 02-05 Identify and describe the different types of adjusting journal entries.
Bloom's: Remember
AACSB: Reflective Thinking
AICPA/Accessibility: BB Critical Thinking

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

Answer: Permanent accounts represent assets, liabilities, and shareholders' equity **at a point in time**. Temporary accounts represent **changes in retained earnings** caused by dividend, revenue, expense, and gain and loss accounts. The temporary accounts are closed out annually to facilitate measuring income on an annual basis. Temporary accounts are a convenience to aid the preparation of financial statements by recording revenues and expenses in these accounts rather than directly into retained earnings.
Difficulty: 2 Medium
Topic: Account relationships and records
Learning Objective: 02-01 Understand routine economic events-transactions-and determine their effects on a company's financial position and on specific accounts.
Bloom's: Understand
AACSB: Communication
AICPA/Accessibility: BB Critical Thinking

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

Answer: The purpose of the statement of cash flows is to **summarize** the **transactions** that caused **cash to change** during the reporting period. The statement of cash flows summarizes cash flows in three categories: **operating, investing, and financing**. Operating activities include cash flows related to transactions entering into the determination of net income, such as cash collections from customers, payments for purchases, and other receipts, such as interest and dividends. Investing activities include purchasing and selling equipment or certain investment securities. Financing activities include borrowing or repaying loans, issuing stock, and payment of dividends.
Difficulty: 3 Hard
Topic: Financial statement—Cash flow
Learning Objective: 02-07 Describe the four basic financial statements.
Bloom's: Understand
AACSB: Communication
AICPA/Accessibility: BB Critical Thinking

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150) What is the purpose of the closing process?

Answer: The closing process serves a dual purpose: (1) the **temporary accounts are reduced to a zero** balance, ready to measure activity in the next accounting period, and (2) the **balances** of these temporary accounts are **transferred to retained earnings** to reflect the changes that have occurred in that account during the period.
Difficulty: 2 Medium
Topic: The closing process
Learning Objective: 02-08 Explain the closing process.
Bloom's: Understand
AACSB: Communication
AICPA/Accessibility: BB Critical Thinking

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151) Claymore Corporation maintains its book on a cash basis. During 2021, the company collected $825,000 in fees from its clients and paid $512,000 in expenses. You are able to determine the following information about accounts receivable, supplies, prepaid rent, salaries payable, and interest payable:

	January 1, 2021	December 31, 2021
Accounts receivable	$110,000	$120,000
Supplies	15,000	18,000
Prepaid rent	12,000	11,000
Salaries payable	16,500	14,200
Interest payable	4,000	5,500

In addition, 2021 depreciation expense on office equipment is $55,000.

Required:

Determine accrual-basis net income for 2021.

Answer:

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

Difficulty: 3 Hard
Topic: Convert cash basis to accrual basis
Learning Objective: 02-09 Convert from cash-basis net income to accrual-basis net income.
Bloom's: Analyze
AACSB: Analytical Thinking
AICPA/Accessibility: BB Critical Thinking; FN Measurement

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

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

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Answer:

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

Difficulty: 2 Medium
Topic: Subsidiary ledgers—Special journals—Appendix C
Learning Objective: Appendix 2C Subsidiary Ledgers and Special Journals.
Bloom's: Understand
AACSB: Reflective Thinking
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