Intermediate Accounting 11th edition Spiceland Test Bank

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CORRECT ANSWERS ARE LOCATED IN THE 2ND HALF OF THIS DOC.

TRUE/FALSE - Write 'T' if the statement is true and 'F' if the statement is false.

1) Shareholders' equity can be expressed as assets minus liabilities.
   - ◎ true
   - ◎ false

2) Debits increase asset accounts and decrease liability accounts.
   - ◎ true
   - ◎ false

3) Balance sheet accounts are referred to as temporary accounts because their balances are always changing.
   - ◎ true
   - ◎ false

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

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

6) Accruals occur when the cash flow precedes either revenue or expense recognition.
   - ◎ true
   - ◎ false

7) Some companies prefer to record external transactions involving prepayments directly into an expense or revenue account rather than creating an asset or liability at the time of the prepayment.
   - ◎ true
   - ◎ false

8) The adjusted trial balance contains only permanent accounts.
   - ◎ true
   - ◎ false

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9) The income statement summarizes the operating activity of a company at a particular point in time.
- ◎ true
- ◎ false

10) Operating items include revenues and expenses directly related to the primary revenue-generating activities of the company.
- ◎ true
- ◎ false

11) The balance sheet can be considered a change or flow statement.
- ◎ true
- ◎ false

12) The statement of cash flows summarizes transactions that caused cash to change during a reporting period.
- ◎ true
- ◎ false

13) The statement of shareholders' equity discloses the changes in the temporary shareholders' equity accounts.
- ◎ true
- ◎ false

14) The post-closing trial balance contains only permanent accounts.
- ◎ true
- ◎ false

15) The closing process brings all temporary accounts to a zero balance and updates the balance in the retained earnings account.
- ◎ true
- ◎ false

16) A reversing entry at the beginning of a period for salaries would include a debit to salaries expense.
- ◎ true
- ◎ false

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17) The sale of inventory on account would be recorded in a sales journal.
- ◎ true
- ◎ false

18) The payment of cash to a supplier would be recorded in a purchases journal.
- ◎ true
- ◎ false

MULTIPLE CHOICE - Choose the one alternative that best completes the statement or answers the question.

19) The accounting equation can be stated as:
- A) A + L − SE = 0.
- B) A − L + SE = 0.
- C) −A + L − SE = 0.
- D) A − L − SE = 0.

20) The accounting equation can be stated as:
- A) A − L = −SE.
- B) A + L = SE.
- C) A − L = SE.
- D) A = L − SE.

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21) The equation that shows a company's total economic resources equal claims to those resources by creditors and owners is:
- A) Revenues − Expenses = Net Income.
- B) Cash Increases − Cash Decreases = Change in Cash.
- C) Common Stock + Retained Earnings = Shareholders' Equity.
- D) Assets = Liabilities + Shareholders' Equity.

22) When a company pays employees' salaries for the current period, how will the basic accounting equation be affected?
- A) Shareholders' equity decreases
- B) Revenues decrease
- C) Expenses decrease
- D) Liabilities increase

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23) When a company declares and then pays shareholders a dividend on the same date, what is the effect on the accounting equation for that company?
A) Decrease shareholders' equity and increase assets
B) Increase liabilities and increase assets
C) Decrease assets and decrease liabilities
D) Decrease assets and decrease shareholders' equity

24) A company sold $500 in inventory to a customer on account on January 1. On January 11, the company collected the cash from that customer. What is the impact on the accounting equation from the collection of cash on January 11?
A) No net effect to the accounting equation
B) Decrease assets and increase liabilities
C) Increase assets and increase liabilities
D) Decrease assets and decrease liabilities

25) Which of the following would increase assets and increase liabilities?
A) Provide services to customers on account
B) Purchase office supplies on account
C) Pay dividends to shareholders
D) Receive a utility bill for the current month, which is set aside for payment next month

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26) An expense has what effect on the accounting equation?
A) Decrease liabilities
B) Decrease shareholders' equity
C) Increase assets
D) No effect on the accounting equation

27) Revenues have what effect on the accounting equation?
A) Increase liabilities
B) Decrease assets
C) Increase shareholders' equity
D) No effect

28) Investments by shareholders have what effect on the accounting equation?
A) Assets increase and liabilities increase
B) Expenses increase and liabilities increase
C) Assets increase and revenues increase
D) Assets increase and shareholders' equity increases

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29) Providing services and receiving cash concurrently will:
A) increase assets and increase shareholders' equity.
B) increase assets and increase liabilities.
C) decrease assets and increase liabilities.
D) decrease liabilities and increase shareholders' equity.

30) Borrowing cash from the bank would have what effect on the accounting equation?
A) Assets increase and shareholders' equity increases
B) Assets increase and liabilities increase
C) Liabilities increase and shareholders' equity decreases
D) Liabilities decrease and shareholders' equity increases

31) Paying for supplies previously purchased would have what effect on the accounting equation?
A) Assets decrease and shareholders' equity decreases
B) Assets increase and liabilities increase
C) Liabilities decrease and shareholders' equity increases
D) Assets decrease and liabilities decrease

32) Purchasing office equipment on account has what impact on the accounting equation?
A) Shareholders' equity decreases and assets increase
B) Liabilities increase and assets increase
C) Assets decrease and liabilities decrease
D) Assets increase and shareholders' equity increases

33) Following are transactions of a new company during January:
Issued 11,900 shares of common stock for $23,800 cash
Purchased land for $13,900 by signing a note payable for the full amount
Purchased office equipment for $3,100 cash
Received cash of $15,900 for services provided to customers during the month
Purchased $400 of office supplies on account
Paid employees $11,900 for work during the current period.
What is the total amount of liabilities following these six transactions?
A) $26,600
B) $19,400
C) $38,100
D) $14,300

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34) Following are transactions of a new company during January:
Issued 10,000 shares of common stock for $15,000 cash
Purchased land for $12,000 by signing a note payable for the full amount
Purchased office equipment for $1,200 cash
Received cash of $14,000 for services provided to customers during the month
Purchased $300 of office supplies on account
Paid employees $10,000 for work during the current period.
What is the total amount of liabilities following these six transactions?

A) $12,300
B) $27,300
C) $22,600
D) $15,500

35) How many of the following transactions would increase total assets in the current period?

- Collect cash from customer prior to providing service
- Provide services to customer and receive cash at time of service
- Provide services on account to customer
- Collect cash from customer for services provided previously on account

A) One
B) Two
C) Three
D) Four

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36) How many of the following transactions would increase total shareholders' equity in the current period?
Declare and pay dividends to shareholders on the same date
Delay payment on supplies purchased until the following period
Provide services on account to customers
Borrow cash from a local bank

A) One
B) Two
C) Three
D) Four

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37) How many of the following transactions would decrease total shareholders' equity in the current period?
Declare and pay dividends to shareholders on the same date
Delay payment on supplies purchased until the following period
Provide services on account to customers
Borrow cash from a local bank
A) One
B) Two
C) Three
D) Four

38) If the liabilities of a company increased by $77,000 during a month and the shareholders' equity decreased by $41,000 during that same month, did assets increase or decrease and by how much?
A) $36,000 increase
B) $77,000 increase
C) $118,000 increase
D) $36,000 decrease

39) If the liabilities of a company increased by $55,000 during a month and the shareholders' equity decreased by $21,000 during that same month, did assets increase or decrease and by how much?
A) $34,000 increase
B) $55,000 increase
C) $34,000 decrease
D) $76,000 increase

40) Examples of external transactions include all of the following **except:**
A) Paying employee salaries.
B) Purchasing equipment.
C) Depreciating equipment.
D) Collecting a receivable.

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41) Which of the following is true about a "debit?"
1. I. It is part of the double-entry system used in accounting to process transactions.
2. II. It represents an increase to asset account balances.
3. III. It represents a decrease to liability account balances.
4. IV. It is on the right side of an account.

A) I and II
B) IV only
C) I, II, and III
D) I, II, III, and IV

42) Which of the following is true about a "credit?"
1. I. It is part of the double-entry system used in accounting to process transactions.
2. II. It represents a decrease to asset account balances.
3. III. It represents an increase to liability account balances.
4. IV. It is on the right side of a an account.

A) I and II
B) IV only
C) I, II, and III
D) I, II, III, and IV

43) An asset account increases with a _____; a liability account increases with a _____.

A) debit; debit
B) credit; debit
C) debit; credit
D) credit; credit

44) An expense account increases with a _____; a revenue account increases with a _____.

A) debit; debit
B) debit; credit
C) credit; debit
D) credit; credit

45) An asset account increases with a _____ account and decreases with a _____.

A) debit; debit
B) credit; debit
C) debit; credit
D) credit; credit

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46) 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.

47) External transactions include all of the following **except**:
A) paying rent.
B) purchasing equipment.
C) using office supplies.
D) collecting an account receivable.

48) Which step in the process of measuring external transactions involves assessing the equality of total debits and total credits for the period?
A) Obtain information from source documents
B) Prepare an unadjusted trial balance
C) Analyze the transaction
D) Post from the journal to the general ledger accounts

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49) Which step in the process of measuring external transactions involves determining the effect on assets, liabilities, and shareholders' equity?
A) Obtain information about external transactions from source documents
B) Prepare an unadjusted trial balance
C) Analyze the transaction
D) Post from journal to the general ledger accounts

50) Which of the following is a source document for gathering information about a transaction?
A) Trial balance
B) Income statement
C) Sales invoice
D) General ledger

51) Which of the following best describes a purpose of source documents?
A) Provide information related to external transactions, such as date and amount
B) Used by accountants to record transactions in specific accounts
C) Keep a record of transactions between the company and its vendors, customers, and other parties with whom the company conducts business
D) All of the other answers provide a correct statement

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52) Providing services on account would be recorded with a:
A) debit to service revenue.
B) credit to accounts receivable.
C) credit to accounts payable.
D) debit to accounts receivable.

53) Xenon Corporation borrows $75,000 from First Bank and a note payable was signed. Xenon Corporation records this transaction with a:
A) debit to investments.
B) credit to retained earnings.
C) credit to notes payable.
D) credit to interest expense.

54) Cost of goods sold is a(n):
A) Asset account.
B) Revenue account.
C) Expense account.
D) Permanent equity account.

55) Childers Service Company provides services to customers totaling $3,000, for which it billed the customers. How would the transaction be recorded?
A) Debit Cash $3,000, credit Service revenue $3,000
B) Debit Accounts receivable $3,000, credit Service revenue $3,000
C) Debit Accounts receivable $3,000, credit Cash $3,000
D) Debit Service revenue $3,000, credit Accounts receivable $3,000

56) At the end of the month, a company received a bill for newspaper advertising services, $400. The bill will be paid in 10 days. How would the transaction be recorded today?
A) Debit Advertising expense $400, credit Accounts payable $400
B) Debit Accounts payable $400, credit Advertising expense $400
C) Debit Accounts payable $400, credit Cash $400
D) Debit Advertising expense $400, credit Cash $400

57) When a company pays $1,800 cash for utilities used during the current month, the transaction is recorded as:
A) debit Utilities expense $1,800, credit Utilities payable $1,800.
B) debit Utilities payable $1,800, credit Cash $1,800.
C) debit Cash $1,800, credit Utilities expense $1,800.
D) debit Utilities expense $1,800, credit Cash $1,800.

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58) Assume that cash is paid for rent to cover the next year. The appropriate debit and credit would be:
A) debit Rent expense, credit Cash.
B) debit Prepaid rent, credit Rent expense.
C) debit Prepaid rent, credit Cash.
D) debit Cash, credit Prepaid rent.

59) Styleson Incorporated performed cleaning services for its customers for cash. These transactions would be recorded as:
A) debit Service revenue, credit Cash.
B) debit Cash, credit Service revenue.
C) debit Cash, credit Accounts receivable.
D) debit Accounts receivable, credit Service revenue.

60) Assume that $18,000 cash is paid for insurance to cover the next year. The appropriate debit and credit would be:
A) debit Insurance expense $18,000, credit Prepaid insurance $18,000.
B) debit Prepaid insurance $18,000, credit Insurance expense $18,000.
C) debit Prepaid insurance $18,000, credit Cash $18,000.
D) debit Cash $18,000, credit Prepaid insurance $18,000.

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61) Issuing common stock for $5,000 cash is recorded as:
A) debit Cash $5,000, credit Service revenue $5,000.
B) debit Cash $5,000, credit Common stock $5,000.
C) debit Cash $5,000, credit Dividends $5,000.
D) debit Common stock $5,000, credit Cash $5,000.

62) Purchasing equipment for $10,000 cash is recorded as:
A) debit Cash $10,000, credit Equipment $10,000.
B) debit Equipment $10,000, credit Notes payable $10,000.
C) debit Equipment $10,000, credit Cash $10,000.
D) debit Notes payable $10,000, credit Equipment $10,000.

63) A company purchased equipment by signing a note payable. This transaction would be recorded as:
A) debit Equipment, credit Cash.
B) debit Cash, credit Notes payable.
C) debit Notes payable, credit Equipment.
D) debit Equipment, credit Notes payable.

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64) When a company declares and pays $2,500 dividends to its shareholders on the same date, the transaction should be recorded as:
A) debit Cash; credit Dividends.
B) debit Retained earnings; credit Dividends.
C) debit Dividends; credit Cash.
D) debit Dividends; credit Accounts payable.

65) A company owes employees' salaries of $15,000. This would be recorded as:
A) debit Salaries expense, credit Cash.
B) debit Salaries payable, credit Cash.
C) debit Salaries expense, credit Salaries payable.
D) debit Salaries payable, credit Salaries expense.

66) Jerome purchased a building for his business by signing a note payable. Which of the following correctly describes how to record this transaction?
A) debit assets, credit liabilities
B) debit assets, credit shareholders' equity
C) debit liabilities, credit assets
D) debit expenses, credit liabilities

67) Tyler Incorporated receives $150,000 from investors in exchange for shares of its common stock. Tyler Incorporated records this transaction with a:
A) debit to Investments.
B) credit to Retained earnings.
C) credit to Common stock.
D) credit to Service revenue.

68) Clement Company paid an account payable related to a previous utility bill of $1,000. This transaction should be recorded as follows on the payment date:
A) debit Accounts payable $1,000, credit Cash $1,000.
B) debit Cash $1,000, credit Accounts payable $1,000.
C) debit Utilities expense $1,000, credit Cash $1,000.
D) debit Cash $1,000, credit Utilities expense $1,000.

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69) On July 7, Saints Incorporated received $10,000 in cash from a customer for services to be provided on October 10. Which of the following describes how the transaction should be recorded on July 7?
A) Debit Cash $10,000, credit Service revenue $10,000
B) Debit Accounts receivable $10,000, credit Service revenue $10,000
C) Debit Cash $10,000, credit Deferred revenue $10,000
D) Debit Deferred revenue $10,000, credit Cash $10,000

70) On December 1, Bears Lawn Maintenance, Incorporated signed a contract with a retailer to supply maintenance for the next calendar year. How should this transaction be recorded on December 1 by Bears Lawn Maintenance?
A) Debit Cash, credit Service revenue
B) Debit Cash, credit Accounts receivable
C) Debit Accounts receivable, credit Service revenue
D) No transaction should be recorded on December 1

71) A company purchased office supplies on account. The transaction would be recorded as:
A) debit Supplies, credit Cash.
B) debit Cash, credit Accounts payable.
C) debit Accounts payable, credit Supplies.
D) debit Supplies, credit Accounts payable.

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72) Tomlin & Company provides music for special occasions. On January 14, the Smith family hired Tomlin for an upcoming family wedding for an agreed-upon fee of $10,000. The wedding was scheduled for May 23. As part of the agreement, the Smiths paid Tomlin half of the fee at the end of April with the remaining amount due by the end of June. How would Tomlin record the receipt of the final payment in June?
A) Credit to Accounts receivable
B) Credit to Service revenue
C) Credit to Cash
D) Debit to Deferred revenue

73) Bostel wanted to expand the size of its warehouse in order to generate more profits. The company decided to purchase the building adjacent to its existing warehouse. The company purchased the building by signing a note with the bank. The transaction would be recorded as:
A) debit Cash; credit Notes payable.
B) debit Buildings; credit Cash.
C) debit Buildings; credit Notes payable.
D) debit Cash; debit Buildings; credit Notes payable.

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74) On July 5, Harris Company purchased supplies from the hardware store for $600 on account. On July 10, Harris receives a bill from the hardware store as a reminder about the account balance. On July 17, Harris pays the account in full. How does Harris record the transaction on July 17?
A) Debit Supplies; credit Accounts payable
B) Debit Accounts payable; credit Supplies
C) Debit Cash; credit Accounts payable
D) Debit Accounts payable; credit Cash

75) On July 31, ALOE Incorporated received $5,000 cash from a customer who previously purchased ALOE's products on account. What entry should ALOE Incorporated record at the time it receives cash?
A) Debit Accounts receivable, $5,000; credit Cash, $5,000
B) Debit Cash, $5,000; credit Accounts receivable, $5,000
C) Debit Cash, $5,000; credit Accounts payable, $5,000
D) Debit Cash, $5,000; credit Service revenue, $5,000

76) 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. TBEXAM.COM
C) Credit to Common stock.
D) Credit to Service revenue.

77) Incurring an expense for advertising on account would be recorded by:
A) Debiting liabilities.
B) Crediting assets.
C) Debiting an expense.
D) Debiting assets.

78) A sale on account would be recorded by:
A) Debiting a revenue.
B) Crediting an asset.
C) Crediting a liability.
D) Debiting an asset.

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79) Mary Parker Company paid $15,000 to acquire 3,000 shares of ABC Corporation common stock. **Mary Parker'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 Dividends.

80) On January 2, Hughes Aircraft sold a four-passenger airplane for $980,000 in exchange for a 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.

81) Somerset received $26,400 from a customer for 12 months' rent in advance of the rental period. How should Somerset record this transaction?

Account Title	Debit	Credit
Cash	26,400	
Deferred rent revenue		26,400

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Account Title	Debit	Credit
Cash	26,400	
Rent revenue		26,400

Account Title	Debit	Credit
Deferred rent revenue	26,400	
Rent revenue		26,400

Account Title	Debit	Credit
Rent revenue	26,400	
Deferred rent revenue		26,400

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82) Somerset received $12,000 from a customer for 12 months' rent in advance of the rental period. How should Somerset record this transaction?

Account Title	Debit	Credit
Rent revenue	12,000	
Deferred rent revenue		12,000

Account Title	Debit	Credit
Cash	12,000	
Deferred rent revenue		12,000

Account Title	Debit	Credit
Cash	12,000	
Rent revenue		12,000

Account Title	Debit	Credit
Deferred rent revenue	12,000	
Rent revenue		12,000

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83) Davis Hardware Company uses a perpetual inventory system. How should Davis record the sale of inventory, costing $810, and sold on account for $1,340?

Account Title	Debit	Credit
Inventory	810	
Gain on sale	530	
Sales revenue		1,340

Account Title	Debit	Credit
Inventory	810	
Accounts receivable		810
Sales	1,340	
Sales revenue		1,340

Account Title	Debit	Credit
Accounts receivable	1,340	
Sales revenue		1,340
Cost of goods sold	810	
Inventory		810

Account Title	Debit	Credit
Accounts receivable	1,340	
Sales revenue		810
Gain on sale		530

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

Account Title	Debit	Credit
Inventory	620	
Accounts receivable		620
Sales	960	
Sales revenue		960

Account Title	Debit	Credit
Accounts receivable	960	
Sales revenue		960
Cost of goods sold	620	
Inventory		620

Account Title	Debit	Credit
Inventory	620	
Gain on sale	340	
Sales revenue		960

Account Title	Debit	Credit
Accounts receivable	960	
Sales revenue		620
Gain on sale		340

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85) Ace Bonding Company purchased inventory on account. The inventory costs $3,300 and is expected to sell for $5,600. How should Ace record the purchase?

Account Title	Debit	Credit
Inventory	3,300	
Accounts payable		3,300

Account Title	Debit	Credit
Cost of goods sold	3,300	
Deferred sales revenue	2,300	
Sales in advance		5,600

Account Title	Debit	Credit
Cost of goods sold	3,300	
Profit	2,300	
Sales payable		5,600

Account Title	Debit	Credit
Cost of goods sold	3,300	
Inventory payable		3,300

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

Account Title	Debit	Credit
Inventory	2,000	
Accounts payable		2,000

Account Title	Debit	Credit
Cost of goods sold	2,000	
Deferred sales revenue	1,000	
Sales in advance		3,000

Account Title	Debit	Credit
Cost of goods sold	2,000	
Inventory payable		2,000

Account Title	Debit	Credit
Cost of goods sold	2,000	
Profit	1,000	
Sales payable		3,000

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87) Dave's Duds reported cost of goods sold of $1,900,000 this year. The inventory account increased by $280,000 during the year to an ending balance of $525,000. What was the cost of the merchandise inventory that Dave's purchased during the year?

A) $2,425,000
B) $2,180,000
C) $1,620,000
D) $1,375,000

88) 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 the merchandise inventory that Dave's purchased during the year?

A) $1,600,000
B) $1,800,000
C) $2,200,000
D) $2,400,000

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89) Which of the following accounts has a normal balance that is a debit?
A) Accounts payable
B) Accrued salaries
C) Accumulated depreciation
D) Advertising expense

90) 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.

91) 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.

92) Prepayments occur when:
A) a cash flow *precedes* either expense or revenue recognition.
B) sales are delayed pending credit approval.
C) customers are unable to pay the full amount due when goods are delivered.
D) cash payment occurs after the expense is incurred and liability is recorded.

93) Deferred revenues refer to:
A) the receipt of cash from a customer in one period for goods or services that are to be provided in a future period.
B) revenue being recorded prior to the receipt of cash from a customer.
C) revenue being recorded at the same time as the receipt of cash from a customer.
D) the receipt of cash from a customer after the related revenue has been recorded.

94) An accrued liability is created when:
A) cash is paid before an expense is incurred.
B) an expense is recorded at the same time as the cash payment.
C) an expense is incurred but not yet paid.
D) cash is paid but an expense is never recorded.

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95) An accrued revenue involves situations in which:
- A) the cash receipt from a customer is prior to (or in advance of) the good or service to be provided.
- B) revenue is recognized in a period prior to the cash receipt.
- C) revenue is recognized at the same time the cash is collected from the customer.
- D) cash is collected from the customer prior to the revenue being recognized.

96) 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.

97) 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.

98) A gym offers one-year memberships for $99 and requires customers to pay the full amount of cash at the beginning of the membership period. For the gym, this is an example of a(n):
- A) accrued expense.
- B) accrued revenue.
- C) prepaid expense.
- D) deferred revenue.

99) Receiving a utility bill for costs in the current period but delaying payment of that bill until the following period is an example of a(n):
- A) accrued expense.
- B) accrued revenue.
- C) prepaid expense.
- D) deferred revenue.

100) Adjusting entries are needed primarily for:
- A) Cash basis accounting.
- B) Accrual accounting.
- C) Current value accounting.
- D) Manual accounting systems.

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101) Which of the following account types are correctly stated by the end of the period when adjusting entries are recorded?
A) All assets
B) All liabilities
C) All revenue, and expenses.
D) All assets, liabilities, revenue, and expenses.

102) On December 31, 2024, the end of Larry's Used Cars' first year of operations, the accounts receivable was $52,600. The company estimates that $2,600 of the year-end receivables will not be collected. Net accounts receivable in the 2024 balance sheet will be valued at:
A) $52,600.
B) $55,200.
C) $2,600.
D) $50,000.

103) On December 31, 2024, 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. Net accounts receivable in the 2024 balance sheet will be valued at:
A) $53,600.
B) $54,800.
C) $52,400.
D) $1,200.

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104) On December 31, 2023, Coolwear, Incorporated had a balance in its prepaid insurance account of $58,400. During 2024, $96,000 was paid for insurance. At the end of 2024, after adjusting entries were recorded, the balance in the prepaid insurance account was $47,000. Insurance expense for 2024 was:
A) $154,400.
B) $11,400.
C) $107,400.
D) $96,000.

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105) On December 31, 2023, Coolwear, Incorporated had a balance in its prepaid insurance account of $48,400. During 2024, $86,000 was paid for insurance. At the end of 2024, after adjusting entries were recorded, the balance in the prepaid insurance account was $42,000. Insurance expense for 2024 was:

A) $6,400.
B) $134,400.
C) $86,000.
D) $92,400.

106) Cal Farms reported supplies expense of $1,000,000 this year. The supplies account decreased by $170,000 during the year to an ending balance of $460,000. What was the cost of supplies the Cal Farms purchased during the year?

A) $1,170,000
B) $1,460,000
C) $830,000
D) $540,000

107) 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

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108) Which of the following is **not** an adjusting entry?

Prepaid rent
Rent expense
Cash
Deferred sales revenue
Interest expense
Interest payable
Salaries expense
Salaries payable

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109) The adjusting entry required when amounts previously recorded as deferred revenues are recognized includes a:
A) Debit to a liability.
B) Debit to an asset.
C) Credit to a liability.
D) Credit to an asset.

110) Which of the following accounts has a balance that is a credit?
A) Salaries expense
B) Interest payable
C) Land
D) Prepaid rent

111) When a tenant makes an end-of-period adjusting entry credit to the "Prepaid rent" account, the tenant:
A) Usually debits cash.
B) Usually debits an expense account.
C) Debits a liability account.
D) Credits a shareholders' equity account.

112) 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.

113) The adjusting entry required to record accrued expenses includes a:
A) Credit to cash.
B) Debit to an asset.
C) Credit to an asset.
D) Credit to liability.

114) Carolina Mills purchased $280,000 in supplies this year. The supplies account increased by $21,000 during the year to an ending balance of $65,000. What was supplies expense for Carolina Mills during the year?
A) $343,000
B) $259,000
C) $217,000
D) $301,000

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115) 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

116) Yummy Foods purchased a two-year fire and extended coverage insurance policy on August 1, 2024, and charged the $3,240 premium to Insurance expense. At its December 31, 2024, year-end, Yummy Foods would record which of the following adjusting entries?

Account Title	Debit	Credit
Insurance expense	675	
Prepaid insurance		675

Account Title	Debit	Credit
Prepaid insurance	2,565	
Insurance expense		2,565

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Account Title	Debit	Credit
Prepaid insurance	675	
Insurance expense		675

Account Title	Debit	Credit
Insurance expense	675	
Prepaid insurance	2,565	
Insurance payable		3,240

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117) Yummy Foods purchased a two-year fire and extended coverage insurance policy on August 1, 2024, and charged the $4,200 premium to Insurance expense. At its December 31, 2024, year-end, Yummy Foods would record which of the following adjusting entries?

Account Title	Debit	Credit
Insurance expense	875	
Prepaid insurance		875

Account Title	Debit	Credit
Prepaid insurance	875	
Insurance expense		875

Account Title	Debit	Credit
Insurance expense	875	
Prepaid insurance	3,325	
Insurance payable		4,200

Account Title	Debit	Credit
Prepaid insurance	3,325	
Insurance expense		3,325

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118) Tummy Foods purchased a two-year fire and extended coverage insurance policy on August 1, 2024, and charged the $4,200 premium to Prepaid insurance. At its December 31, 2024, year-end, Tummy Foods would record which of the following adjusting entries?

Account Title	Debit	Credit
Insurance expense	875	
Prepaid insurance		875
Account Title	**Debit**	**Credit**
Prepaid insurance	875	
Insurance expense		875
Account Title	**Debit**	**Credit**
Insurance expense	875	
Prepaid insurance	3,325	
Insurance payable		4,200
Account Title	**Debit**	**Credit**
Prepaid insurance	3,325	
Insurance expense		3,325

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119) ILP Services purchased a three-year fire insurance policy on September 1, 2024, and charged the $72,000 premium to Prepaid insurance. At its December 31, 2024, year-end, ILP Services would record an adjusting entry that includes which of the following?

Account Title	Debit	Credit
Insurance expense	Yes	No
Prepaid insurance	No	Yes
Account Title	**Debit**	**Credit**
Insurance expense	No	Yes
Prepaid insurance	Yes	No
Account Title	**Debit**	**Credit**
Insurance expense	Yes	No
Prepaid insurance	Yes	No
Account Title	**Debit**	**Credit**
Insurance expense	No	Yes
Prepaid insurance	No	Yes

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120) 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?

Account Title	Debit	Credit
Prepaid salaries	No	Yes
Salaries payable	Yes	No

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

Account Title	Debit	Credit
Prepaid salaries	Yes	No
Salaries payable	No	Yes

Account Title	Debit	Credit
Salaries expense	Yes	No
Salaries payable	No	Yes

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121) The employees of Neat Clothes work Monday through Friday. Every other Friday the company issues payroll checks totaling $28,000. 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?

Account Title	Debit	Credit
Salaries expense	5,600	
Salaries payable		5,600

Account Title	Debit	Credit
Salaries expense	19,600	
Prepaid salaries	8,400	
Salaries payable		28,000

Account Title	Debit	Credit
Salaries expense	19,600	
Salaries payable		19,600

Account Title	Debit	Credit
Prepaid salaries	8,400	
Salaries payable		8,400

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122) 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?

Account Title	Debit	Credit
Salaries expense	22,400	
Prepaid salaries	9,600	
Salaries payable		32,000

Account Title	Debit	Credit
Salaries expense	6,400	
Salaries payable		6,400

Account Title	Debit	Credit
Prepaid salaries	9,600	
Salaries payable		9,600

Account Title	Debit	Credit
Salaries expense	22,400	
Salaries payable		22,400

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123) On January 1, cash of $30,000 was received from a customer for consulting services to be provided over a three-month period beginning in February. How would the company record this transaction on January 1?

Account Title	Debit	Credit
Cash	20,000	
Consulting revenue		10,000
Deferred revenue		20,000

Account Title	Debit	Credit
Deferred revenue	30,000	
Consulting revenue		30,000

Account Title	Debit	Credit
Cash	30,000	
Consulting revenue		30,000

Account Title	Debit	Credit
Cash	30,000	
Deferred revenue		30,000

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124) Deferred revenue represents:

A) goods or services owed to customers who have paid in advance.
B) liabilities that were settled when the company received cash from its customers.
C) cash that flows into the company when goods or services are provided.
D) events that cause stockholders' equity to increase.

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125) On August 28, 2024, an online subscription service provider received a total of $28,440 in cash from 360 customers for one-year subscriptions. The subscriptions begin in September. On receipt of the cash, the company recorded a liability, deferred subscription revenue. What is the required adjusting entry on December 31, 2024?

Account Title	Debit	Credit
Deferred subscription revenue	28,440	
Subscription revenue		9,480
Prepaid subscriptions		18,960

Account Title	Debit	Credit
Deferred subscription revenue	9,480	
Subscription payable		9,480

Account Title	Debit	Credit
Deferred subscription revenue	18,960	
Subscription revenue		18,960

Account Title	Debit	Credit
Deferred subscription revenue	9,480	
Subscription revenue		9,480

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126) On August 28, 2024, an online subscription service provider received a total of $48,600 in cash from 600 customers for one-year subscriptions. The subscriptions begin in September. On receipt of the cash, the company recorded a liability, deferred subscription revenue. What is the required adjusting entry on December 31, 2024?

Account Title	Debit	Credit
Deferred subscription revenue	48,600	
Subscription revenue		16,200
Prepaid subscriptions		32,400

Account Title	Debit	Credit
Deferred subscription revenue	16,200	
Subscription revenue		16,200

Account Title	Debit	Credit
Deferred subscription revenue	16,200	
Subscription payable		16,200

Account Title	Debit	Credit
Deferred subscription revenue	32,400	
Subscription revenue		32,400

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127) On May 1, 2024, Mama's Pizza Shoppe borrowed $6,400 from a local bank and signed a note payable. The note requires repayment of principal and 12% interest on October 31, 2025. The company's fiscal year ends June 30, 2024. What adjusting entry is necessary on June 30, 2024?

Account Title	Debit	Credit
Interest expense	128	
Interest payable		128

A) No adjusting entry is necessary.

Account Title	Debit	Credit
Interest expense	256	
Interest payable		256
Account Title	**Debit**	**Credit**
Prepaid interest	128	
Interest payable		128

128) On May 1, 2024, Mama's Pizza Shoppe borrowed $8,000 from a local bank and signed a note payable. The note requires repayment of principal and 9% interest on October 31, 2025. The company's fiscal year ends June 30, 2024. What adjusting entry is necessary on June 30, 2024?

A) No adjusting entry is necessary

Account Title	Debit	Credit
Interest expense	240	
Interest payable		240
Account Title	**Debit**	**Credit**
Interest expense	120	
Interest payable		120
Account Title	**Debit**	**Credit**
Prepaid interest	120	
Interest payable		120

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129) On September 15, 2024, Oliver's Mortuary received a $9,600, note from the estate of Jay Hendrix in exchange for services rendered. Terms of the note call for the payment of principal, and interest at 10% in nine months. Oliver's has a December 31 year-end. What adjusting entry will the company record on December 31, 2024?

Account Title	Debit	Credit
Interest receivable	280	
Interest revenue		280

Account Title	Debit	Credit
Interest receivable	680	
Interest revenue		680

Account Title	Debit	Credit
Interest receivable	280	
Notes receivable		280

Account Title	Debit	Credit
Interest receivable	960	
Interest revenue		280
Cash		680

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130) On September 15, 2024, Oliver's Mortuary received a $6,000 note from the estate of Jay Hendrix in exchange for services rendered. Terms of the note call for the payment of principal, and interest at 10% in nine months. Oliver's has a December 31 year-end. What adjusting entry will the company record on December 31, 2024?

Account Title	Debit	Credit
Interest receivable	175	
Interest revenue		175

Account Title	Debit	Credit
Interest receivable	230	
Interest revenue		230

Account Title	Debit	Credit
Interest receivable	175	
Notes receivable		175

Account Title	Debit	Credit
Interest receivable	600	
Interest revenue		175
Cash		425

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

132) Eve's Apples opened its business on January 1, 2024, and paid for two insurance policies effective that date. The policy for equipment damage was $37,440 for 18 months, and the crop damage policy was $10,200 for a two-year term. What is the balance in Eve's prepaid insurance as of December 31, 2024?
A) $17,580
B) $15,030
C) $47,640
D) $40,260

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133) Eve's Apples opened its business on January 1, 2024, 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, 2024?

A) $9,000
B) $18,000
C) $30,000
D) $48,000

134) Fink Insurance collected premiums of $18,800,000 from its customers during the current year. The adjusted balance in the Deferred premiums revenue account increased from $4.0 million to $8.9 million dollars during the year. What is Fink's revenue from insurance premiums recognized for the current year?

A) $18,800,000
B) $9,900,000
C) $23,700,000
D) $13,900,000

135) 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

136) On November 1, 2024, Tim's Toys borrowed $27,600,000 from a local bank and signed a note. The note requires repayment of principal and 7% interest in six months. What is the amount of accrued interest expense as of December 31, 2024?

A) $80,500
B) $966,000
C) $322,000
D) $161,000

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137) On November 1, 2024, Tim's Toys borrowed $30,000,000 from a local bank and signed a note. The note requires repayment of principal and 9% interest in six months. What is the amount of accrued interest expense as of December 31, 2024?
A) $112,500
B) $225,000
C) $450,000
D) $1,350,000

138) An economic resource of an entity is a(n):
A) Revenue.
B) Asset.
C) Liability.
D) Contra asset until used.

139) Which of the following best describes the purpose of the income statement?
A) The portion of profits paid in cash to shareholders
B) The current resources available to pay current obligations
C) Summarize the profit-generating activities of a company that occurred during a particular period of time
D) The extent to which cash inflows exceed cash outflows

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140) Which of the following best describes other comprehensive income (OCI) or loss items?
A) All gains and losses that are reported on the income statement
B) The gains and losses that are included in net income
C) Gains and losses that are excluded from the determination of net income and the income statement
D) Anything not included in gross profit within operating income

141) Which of the following best describes the statement of comprehensive income?
A) Another name for the income statement that is commonly used by large, global corporations.
B) An extension of the income statement by reporting all changes in equity during the period that were not a result of transactions with owners.
C) An income statement that excludes other comprehensive income (OCI) or loss items from the calculation of net income.
D) A financial statement that is required for corporations, but not sole proprietorships or partnerships.

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142) What is the starting point for a separate statement of comprehensive income?
A) Gross profit
B) Net income
C) Beginning retained earnings
D) Total stockholders' equity

143) The following table contains financial information for Tarleton Incorporated before closing entries:

Cash	$ 13,700
Supplies	6,200
Prepaid Rent	3,700
Salaries Expense	6,200
Equipment	66,700
Service Revenue	36,800
Miscellaneous Expense	21,700
Dividends	4,700
Accounts Payable	6,700
Common Stock	69,700
Retained Earnings	9,700

What is net income?
A) $5,200
B) $4,200
C) $6,700
D) $8,900

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144) The following table contains financial information for Tarleton Incorporated before closing entries:

Cash	$ 12,000
Supplies	4,500
Prepaid Rent	2,000
Salaries Expense	4,500
Equipment	65,000
Service Revenue	30,000
Miscellaneous Expense	20,000
Dividends	3,000
Accounts Payable	5,000
Common Stock	68,000
Retained Earnings	8,000

What is net income?

A) $3,500
B) $2,500
C) $5,000
D) $5,500

145) If a company *incorrectly* records a payment as an expense instead of an asset, how will this error affect net income in the current period?

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A) Net income will be too low.
B) Net income will be correct.
C) Net income will be too high.
D) Not possible to determine.

146) The statement of shareholders' equity includes which of the following for the period?

A) Details of a company's profitability that represents shareholders' claims
B) Changes in the various permanent shareholders' equity accounts (paid-in capital and retained earnings)
C) Inflows and outflows of cash that benefit shareholders
D) Current assets available to pay current liabilities to reduce risk to shareholders

147) The statement of shareholders' equity reports:

A) net income from the income statement.
B) the proceeds of the issuance of common stock during the current period.
C) distributions to owners (dividends) during the current period.
D) All of the other answer choices are correct.

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148) In the statement of shareholders' equity, Retained Earnings had a beginning balance of $26,700. During the period, the company reports a net income of $11,700 and a dividend of $5,700. The ending balance in the Retained earnings account is:
A) $44,100.
B) $32,700.
C) $38,400.
D) $11,700.

149) In the statement of shareholders' equity, Retained Earnings had a beginning balance of $25,000. During the period, the company reports a net income of $10,000 and a dividend of $4,000. The ending balance in the Retained earnings account is:
A) $10,000.
B) $35,000.
C) $39,000.
D) $31,000.

150) In the statement of shareholders' equity, Retained earnings had a beginning balance of $64,200. During the period, the company reports a net loss of $11,400 and net cash outflows of $16,400. The ending balance in the Retained earnings account is:
A) $47,800.
B) $64,200
C) $52,800.
D) $36,400.

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151) In the statement of shareholders' equity, Retained earnings had a beginning balance of $60,000. During the period, the company reports a net loss of $10,000 and net cash outflows of $15,000. The ending balance in the Retained earnings account is:
A) $60,000.
B) $35,000.
C) $50,000.
D) $45,000.

152) The financial statement that shows the company's financial position on a specific day is the:
A) statement of cash flows.
B) income statement.
C) statement of shareholders' equity.
D) balance sheet.

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153) For the typical company, current assets include:
A) assets that must be fully paid for within one year from the balance sheet date (or operating cycle, if longer).
B) assets that are cash, will be converted into cash, or will be used up within one year from the balance sheet date (or operating cycle, if longer).
C) assets that will be used up over a period that includes many years.
D) all assets that were purchased using cash.

154) A company reports the following information:

Accounts Payable	$ 16,600
Buildings	81,600
Cash	12,100
Accounts Receivable	11,100
Sales Tax Payable	6,100
Retained Earnings	53,900
Supplies	41,600
Notes Payable (due in 18 months)	36,600
Interest Payable	4,600
Common Stock	36,600

What is the amount of current assets, assuming the accounts above reflect normal activity?
A) $183,000
B) $23,200
C) $146,400
D) $64,800

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155) A company reports the following information:

Accounts Payable	$ 15,000
Buildings	80,000
Cash	10,500
Accounts Receivable	9,500
Sales Tax Payable	4,500
Retained Earnings	47,500
Supplies	40,000
Notes Payable (due in 18 months)	35,000
Interest Payable	3,000
Common Stock	35,000

What is the amount of current assets, assuming the accounts above reflect normal activity?

A) $20,000
B) $60,000
C) $140,000
D) $175,000

156) Consider the following items:

Land
Accounts Receivable
Notes Payable (due in three years)
Accounts Payable
Retained Earnings
Prepaid Rent
Deferred Revenue
Buildings
Notes Payable (due in six months)
Equipment

How many of the accounts listed above are generally classified as long-term assets?

A) Two
B) Three
C) Four
D) Five

157) For a typical company, current liabilities are defined as:

A) liabilities that were created less than one year ago.
B) amounts owed to employees.
C) liabilities that will be satisfied within one year from the balance sheet date (or operating cycle, if longer).
D) small liabilities.

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158) Which of the following current liabilities does **not** typically involve the future payment of cash?

A) Interest Payable
B) Deferred Revenue
C) Accounts Payable
D) Salaries Payable

159) A company reports the following financial information. All debt is due within one year from the balance sheet date (or operating cycle, if longer) unless stated otherwise.

Retained Earnings	$ 53,600
Supplies	38,600
Equipment	73,600
Accounts Receivable	10,200
Deferred Revenue	7,600
Accounts Payable	21,400
Common Stock	26,600
Notes Payable (due in 18 months)	36,600
Interest Payable	8,600
Cash	24,000

What is the amount of current liabilities?

A) $37,600
B) $30,000
C) $59,800
D) $48,800

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160) A company reports the following financial information. All debt is due within one year from the balance sheet date (or operating cycle, if longer) unless stated otherwise.

Retained Earnings	$ 52,000
Supplies	37,000
Equipment	72,000
Accounts Receivable	8,600
Deferred Revenue	6,000
Accounts Payable	15,000
Common Stock	25,000
Notes Payable (due in 18 months)	35,000
Interest Payable	7,000
Cash	22,400

What is the amount of current liabilities?

A) $63,000
B) $28,000
C) $45,600
D) $22,000

161) Which of the following are reported as shareholders' equity in a classified balance sheet?

A) Debits and Credits
B) Revenues and Expenses
C) Common Stock and Retained Earnings
D) Assets and Liabilities

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162) The following table contains financial information for Tarleton Incorporated before closing entries:

Cash	$ 12,400
Supplies	4,900
Prepaid Rent	2,400
Salaries Expense	4,900
Equipment	65,400
Service Revenue	31,600
Miscellaneous Expense	20,400
Dividends	3,400
Accounts Payable	5,400
Common Stock	68,400
Retained Earnings	8,400

What is the amount of total assets?

A) $68,900
B) $83,700
C) $85,100
D) $82,700

163) The following table contains financial information for Tarleton Incorporated before closing entries:

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Cash	$ 12,000
Supplies	4,500
Prepaid Rent	2,000
Salaries Expense	4,500
Equipment	65,000
Service Revenue	30,000
Miscellaneous Expense	20,000
Dividends	3,000
Accounts Payable	5,000
Common Stock	68,000
Retained Earnings	8,000

What is the amount of total assets?

A) $81,500
B) $82,500
C) $68,500
D) $83,500

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164) The following table contains financial information for Tarleton Incorporated before closing entries:

Cash	$ 13,700
Supplies	6,200
Prepaid Rent	3,700
Salaries Expense	6,200
Equipment	66,700
Service Revenue	36,800
Miscellaneous Expense	21,700
Dividends	4,700
Accounts Payable	6,700
Common Stock	69,700
Retained Earnings	9,700

What is the amount of total liabilities?

A) $6,700
B) $81,900
C) $70,200
D) $90,300

165) The following table contains financial information for Tarleton Incorporated before closing entries:

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Cash	$ 12,000
Supplies	4,500
Prepaid Rent	2,000
Salaries Expense	4,500
Equipment	65,000
Service Revenue	30,000
Miscellaneous Expense	20,000
Dividends	3,000
Accounts Payable	5,000
Common Stock	68,000
Retained Earnings	8,000

What is the amount of total liabilities?

A) $5,000
B) $78,500
C) $68,500
D) $83,500

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166) The following table contains financial information for Tarleton Incorporated before closing entries:

Cash	$ 13,300
Supplies	5,800
Prepaid Rent	3,300
Salaries Expense	5,800
Equipment	66,300
Service Revenue	35,200
Miscellaneous Expense	21,300
Dividends	4,300
Accounts Payable	6,300
Common Stock	69,300
Retained Earnings	9,300

What is the amount of total shareholders' equity?

A) $82,400
B) $88,700
C) $69,800
D) $6,300

167) The following table contains financial information for Tarleton Incorporated before closing entries:

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Cash	$ 12,000
Supplies	4,500
Prepaid Rent	2,000
Salaries Expense	4,500
Equipment	65,000
Service Revenue	30,000
Miscellaneous Expense	20,000
Dividends	3,000
Accounts Payable	5,000
Common Stock	68,000
Retained Earnings	8,000

What is the amount of total shareholders' equity?

A) $5,000
B) $78,500
C) $68,500
D) $83,500

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168) 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.

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

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

171) Temporary accounts do **not** include:
A) Salaries payable.
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B) Depreciation expense.
C) Supplies expense.
D) Cost of goods sold.

172) 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.

173) If the ending balance of a deferred revenue account is less than its balance at the beginning of the 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.

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174) 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.

175) Molly's Auto Detailers maintains its records on the cash basis. During 2024, Molly's collected $72,500 from customers and paid $19,800 in expenses. Depreciation expense of $3,100 would have been recorded on the accrual basis. Over the course of the year, accounts receivable increased $5,200, prepaid expenses decreased $2,900, and accrued liabilities decreased $2,900. Molly's accrual-basis net income was:
A) $54,800.
B) $49,000.
C) $95,400.
D) $44,400.

176) Molly's Auto Detailers maintains its records on the cash basis. During 2024, 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.

177) Pat's Custom Tuxedo Shop maintains its records on the cash basis. During this past year Pat's collected $43,900 in tailoring fees, and paid $14,000 in expenses. Depreciation expense totaled $2,700. Accounts receivable increased $1,150, supplies increased $3,900, and accrued liabilities increased $1,850. Pat's accrual-basis net income was:
A) $34,100.
B) $20,300.
C) $30,400.
D) $24,000.

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178) 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.

179) The Hamada Company sales for 2024 totaled $155,000 and purchases totaled $88,000. Selected January 1, 2024, balances were: accounts receivable, $18,300; inventory, $15,500; and accounts payable, $10,100. December 31, 2024, balances were: accounts receivable, $15,100; inventory, $19,000; and accounts payable, $13,600. Net cash flows from these activities were:

A) $73,700.
B) $67,000.
C) $70,200.
D) $85,300.

180) The Hamada Company sales for 2024 totaled $150,000 and purchases totaled $95,000. Selected January 1, 2024, balances were: accounts receivable, $18,000; inventory, $14,000; and accounts payable, $12,000. December 31, 2024, 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.

181) If the ending balance of the interest receivable account is less than its balance at the beginning of the 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.

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182) 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.

183) 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

184) On June 1, Royal Corporation began operating a service company with an initial cash investment by shareholders of $3,618,000. The company provided $6,900,000 of services in June and received full payment in July. Royal also incurred expenses of $2,129,000 in June that were paid in August. During June, Royal paid its shareholders cash dividends of $589,000. 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.	$ 4,771,000	$ 4,771,000
b.	$ 8,389,000	$ 4,182,000
c.	$ 6,900,000	$ 4,771,000
d.	$ 6,900,000	$ 4,182,000

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

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185) On June 1, Royal Corporation 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

186) 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	218,550
Prepaid insurance at December 31	62,950

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

A) $229,000
B) $166,050
C) $208,100
D) $218,550

187) 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

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ESSAY. Write your answer in the space provided or on a separate sheet of paper.

188) 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 all general ledger accounts and their balances prepared after all adjusting entries have been recorded.	_____
4. Unadjusted trial balance	A list of general ledger accounts and their balances at a particular date after recording all transactions during the period but before any adjusting entries.	_____
5. Adjusted trial balance	A list of all permanent accounts and their balances after closing entries have been recorded.	_____

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189) 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	Presents financial position on a particular date showing resources equal claims to resources.	_____
4. Statement of cash flows	Represents outflows of resources incurred to generate revenues.	_____
5. Post-closing trial balance	A list of all permanent accounts and their balances after closing entries have been recorded.	_____

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190) 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	Increases in equity from peripheral or incidental transactions of an entity.	_____
2. Prepayments	Decreases in equity arising from peripheral or incidental transactions of an entity.	_____
3. Perpetual system	The cost of inventory purchased is recorded in a temporary account called purchases.	_____
4. Losses	When inventory is sold, the inventory account is decreased by the cost of the item sold.	_____
5. Gains	When cash flow precedes either expense or revenue recognition.	_____

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191) 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	Transfer the balances of temporary accounts to the retained earnings account and reduces the balances of the temporary accounts to zero.	_____

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192) 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 claims to the assets of an entity by its creditors.	_____
4. Post	Represents the cumulative amount of net income, less distributions to shareholders.	_____
5. Special journals	Used to record repetitive types of transactions.	_____

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193) 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.	_____

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194) 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	A list of all permanent accounts and their balances after closing entries have been recorded.	_____
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 general ledger accounts and their balances at a particular date after recording all transactions during the period but before any adjusting entries.	_____
10. Post-closing trial balance	Expenses incurred but not yet paid.	_____

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195) The Account titles 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,
2. Decrease the account balance.
3. A current asset in the balance sheet
4. A noncurrent asset in the balance sheet
5. A current liability in the balance sheet
6. A long-term liability in the balance sheet
7. A permanent equity account in the balance sheet
8. A revenue account in the income statement
9. An expense account in the income statement
10. Account does not appear in either the balance sheet or the income statement

	A	B
	Effect of a Debit	**Classification**
EXAMPLE: Advertising expense	1 Increase	7 An expense account in the income statement

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	A	B
	Effect of a Debit	**Classification**
Office equipment		
Notes payable (short-term)		
Cost of goods sold		
Accounts receivable		
Inventory		
Deferred rent revenue		
Salaries payable		
Retained earnings		
Interest revenue		
Supplies expense		

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Prepaid rent

Common stock

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196) The following chart of accounts is provided for a company.

1100	Cash	2170	Property taxes payable
1120	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	6220	Depreciation expense
1325	Accumulated depreciation	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

The company uses a perpetual inventory system. All prepayments are initially recorded in asset or liability accounts.

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Required: Using the chart of accounts provided, indicate by account number the account or accounts that would be debited and credited in the following transaction. 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.

TRANSACTION	**Account(s) debited**	**Account(s) credited**	**Transaction type**
EXAMPLE: Sold $110,000,000 in common stock for cash.	1100	3100	1
Purchased building and equipment for $10,000,000, paying 20% cash and issuing a 30-year note for the balance.			

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197) The following chart of accounts is provided for a company.

1100	Cash	2170	Property taxes payable
1120	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	6220	Depreciation expense
1325	Accumulated depreciation	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

The company uses a perpetual inventory system. All prepayments are initially recorded in asset or liability accounts.

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TRANSACTION	**Account(s) debited**	**Account(s) credited**	**Transaction type**
EXAMPLE: Sold $110,000,000 in common stock for cash.	1100	3100	1
Invested excess cash in a certificate of deposit that matures in six months.			

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1140	Accounts receivable	3100	Common stock
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TRANSACTION	**Account(s) debited**	**Account(s) credited**	**Transaction type**
EXAMPLE: Sold $110,000,000 in common stock for cash.	1100	3100	1
Purchased inventory on account.			

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

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200) The following chart of accounts is provided for a company.

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

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

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TRANSACTION	**Account(s) debited**	**Account(s) credited**	**Transaction type**
EXAMPLE: Sold $110,000,000 in common stock for cash.	1100	3100	1
Accrued the interest recognized but not collected on notes receivable.			

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202) The following chart of accounts is provided for a company.

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TRANSACTION	**Account(s) debited**	**Account(s) credited**	**Transaction type**
EXAMPLE: Sold $110,000,000 in common stock for cash.	1100	3100	1
Collected a note receivable at maturity, including the interest that had already been accrued.			

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

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

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TRANSACTION	Account(s) debited	Account(s) credited	Transaction type
EXAMPLE: Sold $110,000,000 in common stock for cash.	1100	3100	1
Received payment for services to be performed next year.			

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

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

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

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

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TRANSACTION	Account(s) debited	Account(s) credited	Transaction type
EXAMPLE: Sold $110,000,000 in common stock for cash.	1100	3100	1
Declared cash dividends on common stock that will be paid in the next month.			

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TRANSACTION	**Account(s) debited**	**Account(s) credited**	**Transaction type**
EXAMPLE: Sold $110,000,000 in common stock for cash.	1100	3100	1
Paid rent for the next three months.			

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

1. Purchased $9,500 of inventory on account.
2. Paid weekly salaries, $1,050.
3. Recorded sales for the first week: Cash: $8,400; On account: $6,600.
4. Paid for inventory purchased in event (1).
5. Placed an order for $7,500 of inventory.

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

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

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.

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

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213) The following transactions occurred at the Daisy King Ice Cream Company.

1. Started business by issuing 10,000 shares of common stock for $40,000.
2. Leased a building for three years at $700 per month and paid six months' rent in advance.
3. Purchased equipment by signing a note with the bank for $7,400.
4. Purchased $3,800 of supplies on account.
5. Recorded cash sales of $2,800 for the first week.
6. Paid weekly salaries, $1,320.
7. Paid for supplies purchased in item (4).
8. Recorded depreciation on equipment, $120.

Required: Prepare journal entries to record each of the transactions listed above.
Note: If an entry is not required, state "No Entry."

214) The following transactions occurred at the Daisy King Ice Cream Company.

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 by signing a note with the bank for $5,400.
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 (4).
8. Recorded depreciation on equipment, $50.

Required: Prepare journal entries to record each of the transactions listed above.
Note: If an entry is not required, state "No Entry."

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215) Flint Hills, Incorporated has prepared a year-end 2024 trial balance. Certain accounts in the trial balance do not reflect all activities that have occurred.

1. The Supplies account shows a balance of $880, but a count of supplies reveals only $380 on hand.
2. Flint Hills initially records the payments of all insurance premiums as expenses. The trial balance shows a balance of $590 in Insurance expense. A review of insurance policies reveals that $210 of insurance is unexpired.
3. Flint Hills employees work Monday through Friday, and salaries of $4,100 per week are paid each Friday. Flint Hills' year-end falls on Tuesday.
4. On December 31, 2024, Flint Hills received a bill for $360 for utilities incurred during December. The bill will be paid in early January of 2025.

Required: Prepare adjusting journal entries, as needed, for the above items.
Note: If an entry is not required, state "No Entry."

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216) Flint Hills, Incorporated has prepared a year-end 2024 trial balance. Certain accounts in the trial balance do not reflect all activities that have occurred.

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, 2024, Flint Hills received a bill for $190 for utilities incurred during December. The bill will be paid in early January of 2025.

Required: Prepare adjusting journal entries, as needed, for the above items.
Note: If an entry is not required, state "No Entry."

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217) The following is selected financial information for D. Kay Dental Laboratories for 2023 and 2024:

	2023	2024
Retained earnings, January 1	$ 67,000	?question mark
Net income	51,000	56,000
Dividends declared and paid	29,000	32,000
Common stock	84,000	?question mark

Kay issued 3,400 shares of additional common stock in 2024 for $34,000. There were no other shareholder transactions.

Required: Prepare a statement of shareholders' equity for D. Kay Dental Laboratories for the year ended December 31, 2024.

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218) The following is selected financial information for D. Kay Dental Laboratories for 2023 and 2024:

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	2023	2024
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 2024 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, 2024.

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219) 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, 2024:

General Journal	Debit	Credit
Interest expense	2,760	
Interest payable		2,760
Insurance expense	92,000	
Prepaid insurance		92,000
Interest receivable	5,520	
Interest revenue		5,520

Additional information:

1. The company borrowed $46,000 on June 30, 2024. Principal and interest are due on June 30, 2025. This note is the company's only interest-bearing debt.
2. Insurance for the year on the company's office buildings is $138,000. The insurance is paid in advance.
3. On August 31, 2024, Yankel lent money to a customer. The customer signed a note with principal and interest at 9% due in one year.
4. What is the interest rate on the company's note payable?
5. The 2024 insurance payment was made at the beginning of which month?
6. How much did Yankel lend its customer on August 31?

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220) 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, 2024:

General Journal	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, 2024. Principal and interest are due on June 30, 2025. 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, 2024, Yankel lent money to a customer. The customer signed a note with principal and interest at 9% due in one year.
4. What is the interest rate on the company's note payable?
5. The 2024 insurance payment was made at the beginning of which month?
6. How much did Yankel lend its customer on August 31?

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221) Suppose that Laramie Company's adjusted trial balance ignored the following information. For each item, indicate what effects, if any, these omissions would have on the stated components of Laramie Company's 2024 Income Statement and 12/31/2024 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

Additional Information	12/31/2024 Assets	12/31/2024 Liabilities	12/31/2024 Owners' Equity	2024 Net Income
$2,200 interest on a loan was not yet paid or recorded				

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222) Suppose that Laramie Company's adjusted trial balance ignored the following information. For each item, indicate what effects, if any, these omissions would have on the stated components of Laramie Company's 2024 Income Statement and 12/31/2024 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

Additional Information	12/31/2024 Assets	12/31/2024 Liabilities	12/31/2024 Owners' Equity	2024 Net Income
$2,000 interest on a loan was not yet paid or recorded				

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223) Suppose that Laramie Company's adjusted trial balance ignored the following information. For each item, indicate what effects, if any, these omissions would have on the stated components of Laramie Company's 2024 Income Statement and 12/31/2024 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

Additional Information	12/31/2024 Assets	12/31/2024 Liabilities	12/31/2024 Owners' Equity	2024 Net Income
The estimated uncollectible accounts receivable is now zero and should be $40,000.				

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224) Suppose that Laramie Company's adjusted trial balance ignored the following information. For each item, indicate what effects, if any, these omissions would have on the stated components of Laramie Company's 2024 Income Statement and 12/31/2024 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

Additional Information	12/31/2024 Assets	12/31/2024 Liabilities	12/31/2024 Owners' Equity	2024 Net Income
The estimated uncollectible accounts receivable is now zero and should be $25,000.				

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225) Suppose that Laramie Company's adjusted trial balance ignored the following information. For each item, indicate what effects, if any, these omissions would have on the stated components of Laramie Company's 2024 Income Statement and 12/31/2024 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

Additional Information	12/31/2024 Assets	12/31/2024 Liabilities	12/31/2024 Owners' Equity	2024 Net Income
$24,000 of the paid and recorded rent expense pertains to the year 2025.				

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226) Suppose that Laramie Company's adjusted trial balance ignored the following information. For each item, indicate what effects, if any, these omissions would have on the stated components of Laramie Company's 2024 Income Statement and 12/31/2024 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

Additional Information	12/31/2024 Assets	12/31/2024 Liabilities	12/31/2024 Owners' Equity	2024 Net Income
$10,000 of the paid and recorded rent expense pertains to the year 2025.				

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227) Suppose that Laramie Company's adjusted trial balance ignored the following information. For each item, indicate what effects, if any, these omissions would have on the stated components of Laramie Company's 2024 Income Statement and 12/31/2024 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

Additional Information	12/31/2024 Assets	12/31/2024 Liabilities	12/31/2024 Owners' Equity	2024 Net Income
$26,000 in depreciation on some equipment was still unrecorded.				

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228) Suppose that Laramie Company's adjusted trial balance ignored the following information. For each item, indicate what effects, if any, these omissions would have on the stated components of Laramie Company's 2024 Income Statement and 12/31/2024 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

Additional Information	12/31/2024 Assets	12/31/2024 Liabilities	12/31/2024 Owners' Equity	2024 Net Income
$20,000 in depreciation on some equipment was still unrecorded.				

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229) Suppose that Laramie Company's adjusted trial balance ignored the following information. For each item, indicate what effects, if any, these omissions would have on the stated components of Laramie Company's 2024 Income Statement and 12/31/2024 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

Additional Information	12/31/2024 Assets	12/31/2024 Liabilities	12/31/2024 Owners' Equity	2024 Net Income
$6,000 in cash dividends declared and paid in December 2024 were unrecorded.				

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230) Suppose that Laramie Company's adjusted trial balance ignored the following information. For each item, indicate what effects, if any, these omissions would have on the stated components of Laramie Company's 2024 Income Statement and 12/31/2024 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

Additional Information	12/31/2024 Assets	12/31/2024 Liabilities	12/31/2024 Owners' Equity	2024 Net Income
$4,000 in cash dividends declared and paid in December 2024 were unrecorded.				

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231) You are reviewing O'Brian Company's adjusted trial balance for the year ended 12/31/2024. 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 Company's 2024 Income Statement and 12/31/2024 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

Additional Information	12/31/2024 Assets	12/31/2024 Liabilities	12/31/2024 Owners' Equity	2024 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.				

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232) You are reviewing O'Brian Company's adjusted trial balance for the year ended 12/31/2024. 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 Company's 2024 Income Statement and 12/31/2024 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

Additional Information	12/31/2024 Assets	12/31/2024 Liabilities	12/31/2024 Owners' Equity	2024 Net Income
The journal entry for depreciation on equipment for 2024 was recorded for $48,000. The amount should have been $66,000.				

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233) You are reviewing O'Brian Company's adjusted trial balance for the year ended 12/31/2024. 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 Company's 2024 Income Statement and 12/31/2024 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

Additional Information	12/31/2024 Assets	12/31/2024 Liabilities	12/31/2024 Owners' Equity	2024 Net Income
Cash dividends declared and paid on December 15, 2024, were not recorded.				

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234) You are reviewing O'Brian Company's adjusted trial balance for the year ended 12/31/2024. 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 Company's 2024 Income Statement and 12/31/2024 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

Additional Information	12/31/2024 Assets	12/31/2024 Liabilities	12/31/2024 Owners' Equity	2024 Net Income
$10,000 of the rent revenue collected and recorded as revenue this year pertains to 2025.				

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235) You are reviewing O'Brian Company's adjusted trial balance for the year ended 12/31/2024. 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 Company's 2024 Income Statement and 12/31/2024 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

Additional Information	12/31/2024 Assets	12/31/2024 Liabilities	12/31/2024 Owners' Equity	2024 Net Income
Interest earned during the year on a note receivable was not yet collected or recorded.				

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236) You are reviewing O'Brian Company's adjusted trial balance for the year ended 12/31/2024. 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 Company's 2024 Income Statement and 12/31/2024 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

Additional Information	12/31/2024 Assets	12/31/2024 Liabilities	12/31/2024 Owners' Equity	2024 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.				

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237) The adjusted trial balance for China Tea Company at December 31, 2024, is presented below:

	Debit	Credit
Cash	$ 12,500	
Accounts receivable	170,000	
Prepaid rent	7,000	
Inventory	45,000	
Equipment	500,000	
Accumulated depreciation		$ 145,000
Accounts payable		50,000
Notes payable (due in three months)		50,000
Salaries payable		6,000
Interest payable		21,000
Common stock		300,000
Retained earnings		94,000
Dividends	18,000	
Sales revenue		600,000
Costs of goods sold	280,000	
Salaries expense	140,000	
Rent expense	35,000	
Depreciation expense	50,000	
Interest expense	4,000	
Advertising expense	4,500	
Totals	$ 1,266,000	$ 1,266,000

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Required: Prepare the closing entries for China Tea Company for the year ended December 31, 2024.

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238) The adjusted trial balance for China Tea Company at December 31, 2024, is presented below:

	Debit	Credit
Cash	$ 10,500	
Accounts receivable	150,000	
Prepaid rent	5,000	
Inventory	25,000	
Equipment	300,000	
Accumulated depreciation		$ 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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Required: Prepare the closing entries for China Tea Company for the year ended December 31, 2024.

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239) The adjusted trial balance for China Tea Company at December 31, 2024, is presented below:

	Debit	Credit
Cash	$ 12,100	
Accounts receivable	166,000	
Prepaid rent	6,600	
Inventory	41,000	
Equipment	460,000	
Accumulated depreciation		$ 141,000
Accounts payable		46,000
Notes payable (due in three months)		46,000
Salaries payable		5,600
Interest payable		17,100
Common stock		280,000
Retained earnings		85,200
Dividends	82,900	
Sales revenue		560,000
Costs of goods sold	260,000	
Salaries expense	136,000	
Rent expense	31,000	
Depreciation expense	46,000	
Interest expense	3,600	
Advertising expense	4,100	
Totals	$ 1,180,900	$ 1,180,900

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Required: Prepare an income statement for China Tea Company for the year ended December 31, 2024.

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240) The adjusted trial balance for China Tea Company at December 31, 2024, is presented below:

	Debit	Credit
Cash	$ 10,500	
Accounts receivable	150,000	
Prepaid rent	5,000	
Inventory	25,000	
Equipment	300,000	
Accumulated depreciation		$ 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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Required: Prepare an income statement for China Tea Company for the year ended December 31, 2024.

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241) The adjusted trial balance for China Tea Company at December 31, 2024, is presented below:

	Debit	Credit
Cash	$ 12,000	
Accounts receivable	165,000	
Prepaid rent	6,500	
Inventory	40,000	
Equipment	450,000	
Accumulated depreciation		$ 140,000
Accounts payable		45,000
Notes payable (due in three months)		45,000
Salaries payable		5,500
Interest payable		16,600
Common stock		275,000
Retained earnings		83,000
Dividends	14,100	
Sales revenue		550,000
Costs of goods sold	255,000	
Salaries expense	135,000	
Rent expense	30,000	
Depreciation expense	45,000	
Interest expense	3,500	
Advertising expense	4,000	
Totals	$ 1,160,100	$ 1,160,100

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Required: Prepare a classified balance sheet for China Tea Company as of December 31, 2024.

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242) The adjusted trial balance for China Tea Company at December 31, 2024, is presented below:

	Debit	Credit
Cash	$ 10,500	
Accounts receivable	150,000	
Prepaid rent	5,000	
Inventory	25,000	
Equipment	300,000	
Accumulated depreciation		$ 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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Required: Prepare a classified balance sheet for China Tea Company as of December 31, 2024.

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243) The following information, based on the 12/31/2024 Annual Report to Shareholders of Krafty Foods ($ in millions):

Accounts payable	$ 2,397
Accounts receivable (net)	3,631
Accrued liabilities	4,605
Cash and cash equivalents	212
Cost of goods sold	18,031
Other current payables	2,152
Current portion of long-term debt	590
Other long-term liabilities	10,811
Retained earnings as of 12/31/2024	2,891
Goodwill and other intangible assets (net)	37,457
Salaries expense	2,065
Interest and other debt expense, net	1,937
Inventories	3,526
Long-term debt	8,634
Long-term notes payable	5,500
Marketing, general and administration expenses	11,960
Operating revenues	36,375
Other current assets	737
Other noncurrent assets	4,226
Other shareholders' equity	(3,068)
Common stock	24,155
Property, plant and equipment (net)	9,609
Short-term borrowings	731

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Required: Based on the information presented above, prepare the Income Statement for Krafty Foods for the year ended December 31, 2024.

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244) The following information, based on the 12/31/2024 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 12/31/2024	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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Required: Based on the information presented above, prepare the Income Statement for Krafty Foods for the year ended December 31, 2024.

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245) The following information, based on the 12/31/2024 Annual Report to Shareholders of Krafty Foods ($ in millions):

Accounts payable	$ 2,497
Accounts receivable (net)	3,731
Accrued liabilities	4,705
Cash and cash equivalents	222
Cost of goods sold	18,131
Other current payables	2,252
Current portion of long-term debt	600
Other long-term liabilities	10,911
Retained earnings as of 12/31/2024	2,991
Goodwill and other intangible assets (net)	37,757
Salaries expense	2,165
Interest and other debt expense, net	2,037
Inventories	3,626
Long-term debt	8,734
Long-term notes payable	5,600
Marketing, general and administration expenses	12,060
Operating revenues	36,875
Other current assets	747
Other noncurrent assets	4,326
Other shareholders' equity	(3,168)
Common stock	24,255
Property, plant and equipment (net)	9,709
Short-term borrowings	741

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Required: Based on the information presented above, prepare the 12/31/2024 Balance Sheet for Krafty Foods.

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246) The following information, based on the 12/31/2024 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 12/31/2024	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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Required: Based on the information presented above, prepare the 12/31/2024 Balance Sheet for Krafty Foods.

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247) The December 31, 2024 (pre-closing) adjusted trial balance for Kline Enterprises was as follows:

Account Title	Debit	Credit
Accounts payable		$ 98,000
Accounts receivable	$ 178,000	
Accumulated depreciation		268,000
Common stock		498,000
Cash	34,000	
Cost of goods sold	488,000	
Depreciation expense	68,000	
Equipment	716,000	
Interest expense	5,000	
Inventory	158,000	
Note payable (due in six months)		68,000
Rent expense	38,000	
Retained earnings		71,000
Salaries payable		16,000
Sales revenue		794,000
Salaries expense	128,000	
Totals	$ 1,813,000	$ 1,813,000

Required: Assuming no income taxes, compute Kline's 2024 net income (or loss).

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248) The December 31, 2024 (pre-closing) adjusted trial balance for Kline Enterprises was as follows:

Account Title	Debit	Credit
Accounts payable		$ 90,000
Accounts receivable	$ 170,000	
Accumulated depreciation		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

Required: Assuming no income taxes, compute Kline's 2024 net income (or loss).

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249) The December 31, 2024 (pre-closing) adjusted trial balance for Kline Enterprises was as follows:

Account Title	Debit	Credit
Accounts payable		$ 108,000
Accounts receivable	$ 188,000	
Accumulated depreciation		278,000
Common stock		508,000
Cash	44,000	
Cost of goods sold	498,000	
Depreciation expense	78,000	
Equipment	736,000	
Interest expense	8,000	
Inventory	168,000	
Note payable (due in six months)		78,000
Rent expense	48,000	
Retained earnings		84,000
Salaries payable		26,000
Sales revenue		824,000
Salaries expense	138,000	
Totals	$ 1,906,000	$ 1,906,000

Required: Assuming no income taxes, compute Kline's 12/31/2024 total current assets.

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250) The December 31, 2024 (pre-closing) adjusted trial balance for Kline Enterprises was as follows:

Account Title	Debit	Credit
Accounts payable		$ 90,000
Accounts receivable	$ 170,000	
Accumulated depreciation		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

Required: Assuming no income taxes, compute Kline's 12/31/2024 total current assets.

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251) The December 31, 2024 (pre-closing) adjusted trial balance for Kline Enterprises was as follows:

Account Title	Debit	Credit
Accounts payable		$ 98,000
Accounts receivable	$ 178,000	
Accumulated depreciation		268,000
Common stock		498,000
Cash	34,000	
Cost of goods sold	488,000	
Depreciation expense	68,000	
Equipment	716,000	
Interest expense	5,000	
Inventory	158,000	
Note payable (due in six months)		68,000
Rent expense	38,000	
Retained earnings		71,000
Salaries payable		16,000
Sales revenue		794,000
Salaries expense	128,000	
Totals	$ 1,813,000	$ 1,813,000

Required: Assuming no income taxes, compute Kline's 12/31/2024 total current liabilities.

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252) The December 31, 2024 (pre-closing) adjusted trial balance for Kline Enterprises was as follows:

Account Title	Debit	Credit
Accounts payable		$ 90,000
Accounts receivable	$ 170,000	
Accumulated depreciation		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

Required: Assuming no income taxes, compute Kline's 12/31/2024 total current liabilities.

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253) The December 31, 2024 (pre-closing) adjusted trial balance for Kline Enterprises was as follows:

Account Title	Debit	Credit
Accounts payable		$ 102,000
Accounts receivable	$ 182,000	
Accumulated depreciation		272,000
Common stock		502,000
Cash	38,000	
Cost of goods sold	492,000	
Depreciation expense	72,000	
Equipment	724,000	
Interest expense	9,000	
Inventory	162,000	
Note payable (due in six months)		72,000
Rent expense	42,000	
Retained earnings		79,000
Salaries payable		20,000
Sales revenue		806,000
Salaries expense	132,000	
Totals	$ 1,853,000	$ 1,853,000

Required: Assuming no income taxes, compute Kline's 12/31/2024 total shareholders' equity.

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254) The December 31, 2024 (pre-closing) adjusted trial balance for Kline Enterprises was as follows:

Account Title	Debit	Credit
Accounts payable		$ 90,000
Accounts receivable	$ 170,000	
Accumulated depreciation		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

Required: Assuming no income taxes, compute Kline's 12/31/2024 total shareholders' equity.

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255) Presented below is income statement and dividend information of the Nebraska Corporation for the year ended December 31, 2024.

Sales revenue	$ 812,000	Cost of goods sold	$ 435,000
Salaries expense	106,000	Insurance expense	36,000
Dividend revenue	4,600	Depreciation expense	34,000
Miscellaneous expense	28,000	Administrative expense	51,000
Loss on sale of investments	9,600	Rent expense	26,000
Dividends	21,000		

Required: Prepare the necessary closing entries at December 31, 2024.

256) Presented below is income statement and dividend information of the Nebraska Corporation for the year ended December 31, 2024.

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		

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Required: Prepare the necessary closing entries at December 31, 2024.

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257) 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, 2024:

Cash receipts:

From customers	$ 505,000
Interest on note	3,050
Issue of common stock	50,000
Total cash receipts	$ 558,050

Cash disbursements:

Purchase of inventory	$ 231,000
Annual insurance payment	6,000
Payment of salaries	191,000
Dividends paid to shareholders	6,000
Annual rent payment	17,000
Total cash disbursements	$ 451,000

Selected balance sheet information:

	12/31/2023	12/31/2024
Cash	$ 36,000	$ 112,000
Accounts receivable	53,000	92,000
Inventory	71,000	104,000
Prepaid insurance	2,000	?question mark
Prepaid rent	6,000	?question mark
Interest receivable	1,525	?question mark
Note receivable	61,000	61,000
Equipment	172,000	172,000
Accumulated depreciation	(51,000)	(77,000)
Accounts payable (for inventory)	61,000	84,000
Salaries payable	31,000	50,000
Common stock	310,000	360,000
Dividends	0	11,000

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Additional information:

1. On June 30, 2023, Raintree lent a customer $61,000. Interest at 5% is payable annually on each June 30. Principal is due in 2027.
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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4. Prepare an accrual basis income statement for 2024 (ignore income taxes).
5. Determine the following balance sheet amounts on December 31, 2024:

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258) 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, 2024:

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 inventory	$ 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:

	12/31/2023	12/31/2024
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	(40,000)	(55,000)
Accounts payable (for inventory)	50,000	62,000
Salaries payable	20,000	28,000
Common stock	200,000	250,000
Dividends	0	6,000

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Additional information:

1. On June 30, 2023, Raintree lent a customer $50,000. Interest at 6% is payable annually on each June 30. Principal is due in 2027.
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.
4. Prepare an accrual basis income statement for 2024 (ignore income taxes).
5. Determine the following balance sheet amounts on December 31, 2024:

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259) Silicon Chip Company's fiscal year-end is December 31. At the end of 2024, it owed employees $24,000 in salaries that will be paid on January 7, 2025.

Required:

1. Prepare an adjusting entry to record accrued salaries, a reversing entry on January 1, 2025, and an entry to record the payment of salaries on January 7, 2025.
2. Prepare journal entries to record the accrued salaries on December 31, 2024 and the payment of salaries on January 7, 2025, assuming a reversing entry is not recorded.

260) Silicon Chip Company's fiscal year-end is December 31. At the end of 2024, it owed employees $22,000 in salaries that will be paid on January 7, 2025.

Required:

1. Prepare an adjusting entry to record accrued salaries, a reversing entry on January 1, 2025, and an entry to record the payment of salaries on January 7, 2025.
2. Prepare journal entries to record the accrued salaries on December 31, 2024 and the payment of salaries on January 7, 2025, assuming a reversing entry is not recorded.

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

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

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

264) What is an accrued liability?

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

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266) 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.

267) What is the purpose of the closing process?

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268) Claymore Corporation maintains its book on a cash basis. During 2024, 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, 2024	December 31, 2024
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, 2024 depreciation expense on office equipment is $55,000.

Required: Determine accrual-basis net income for 2024.

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269) 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 inventory on account.	_____
5. Sold inventory on account (the sale only, not the cost of the inventory).	_____
6. Sold inventory for cash (the sale only, not the cost of the inventory).	_____
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 Key

Test name: Chapter 02

1) TRUE
2) TRUE
3) FALSE
4) FALSE
5) TRUE
6) FALSE
7) TRUE
8) FALSE
9) FALSE
10) TRUE
11) FALSE
12) TRUE
13) FALSE
14) TRUE
15) TRUE
16) FALSE
17) TRUE
18) FALSE
19) D
20) C
21) D
22) A
23) D
24) A
25) B
26) B
27) C
28) D
29) A
30) B
31) D
32) B
33) D
Liabilities = ($13,900 + $400) = $14,300

34) A

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Liabilities = ($12,000 + $300) = $12,300

35) C
(1) Collect cash from customer prior to providing service, (2) provide services to customer and receive cash at time of service, and (3) provide services on account to customer.

36) A
Provide services on account to customers.

37) A
Pay dividends to shareholders.

38) A
Increase in Liabilities ($77,000) − Decrease in Shareholders' Equity ($41,000) = Increase in Assets ($36,000).

39) A
Increase in Liabilities ($55,000) − Decrease in Shareholders' Equity ($21,000) = Increase in Assets ($34,000).

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40) C
41) C
42) D
43) C
44) B
45) C
46) D
47) C
48) B
49) C
50) C
51) D
52) D
53) C
54) C
55) B
56) A
57) D
58) C
59) B
60) C

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61) B
62) C
63) D
64) C
65) C
66) A
67) C
68) A
69) C
70) D
71) D
72) A
73) C
74) D
75) B
76) C
77) C
78) D
79) A
80) C
81) A
82) B
83) C
84) B
85) A
86) A
87) B

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Inventory

Debit		Credit	
Opening Balance	245,000	1,900,000	To cost of goods sold
Purchases	?question mark		
Ending Balance	525,000		

Purchases = $1,900,000 − $245,000 + $525,000 = $2,180,000

88) C

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Inventory

Debit		Credit	
Opening Balance	200,000	2,000,000	To cost of goods sold
Purchases	?question mark		
Ending Balance	400,000		

Purchases = $2,000,000 − $200,000 + $400,000 = $2,200,000

89) D
90) D
91) D
92) A
93) A
94) C
95) B
96) D
97) D
98) D
99) A

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100) B
101) D
102) D

Accounts receivable = $52,600 − $2,600 = $50,000

103) C

Accounts receivable = $53,600 − $1,200 = $52,400

104) C

Insurance expense = $58,400 + $96,000 − $47,000 = $107,400

105) D

Insurance expense = $48,400 + $86,000 − $42,000 = $92,400

106) C

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Supplies

Debit		Credit
Balance	630,000	
	?question mark	1,000,000
Balance	460,000	

Supplies purchases: $460,000 + $1,000,000 − $630,000 = $830,000

107) B

Supplies

Debit		Credit
Balance	600,000	
	?question mark	2,000,000
Balance	400,000	

Supplies purchases: $400,000 + $2,000,000 − $600,000 = $1,800,000

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108) B
109) A
110) B
111) B
112) B
113) D
114) B

Supplies

Debit		Credit
Balance	44,000	
	280,000	?question mark
Balance	65,000	

Supplies expense = $44,000 + $280,000 − $65,000 = $259,000

115) C

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Supplies

Debit		Credit	
Balance	56,000		
	270,000		?question mark
Balance	66,000		

Supplies expense = $56,000 + $270,000 − $66,000 = $260,000

116) B

Entries	Account Title	Debit	Credit
Entry on 8/1:	Insurance expense	3,240	
	Cash		3,240

Unexpired at 12/31: $3,240 × 19 ÷ 24 = $2,565

117) D

Entries	Account Title	Debit	Credit
Entry on 8/1:	Insurance expense	4,200	
	Cash		4,200

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

118) A

Entries	Account Title	Debit	Credit
Entry on 8/1:	Prepaid insurance	4,200	
	Cash		4,200

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

119) A

Expired at 12/31: $72,000 × 4 ÷ 36 = $8,000

Entries	Account Title	Debit	Credit
Adjusting Entry on 12/31:	Insurance expense	8,000	
	Prepaid insurance		8,000

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120) D

Amount accrued: $640,000 × 7 ÷ 10 (7 days of 10 days to be paid) = $448,000

Entries	Account Title	Debit	Credit
Adjusting Entry on 6/30:	Salaries expense	448,000	
	Salaries payable		448,000

121) C

Amount accrued: $28,000 × 7 ÷ 10 (7 days of 10 days to be paid) = $19,600

122) D

Amount accrued: $32,000 × 7 ÷ 10 (7 days of 10 days to be paid) = $22,400

123) D

Receiving cash from a customer in advance of services to be provided increases cash and increases deferred revenue (a liability). That liability represents services owed to a customer who has paid in advance. Revenue is recognized (and the liability is settled) over time as the services are provided to the customer. No services were provided during January.

124) A

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125) D

Entries	Account Title	Debit	Credit
Entry on 8/28:	Cash	28,440	
	Deferred subscription revenue		28,440

Amount recorded as revenue: $28,440 × 4 ÷ 12 (4 months expired) = $9,480

126) B

Entries	Account Title	Debit	Credit
Entry on 8/28:	Cash	48,600	
	Deferred subscription revenue		48,600

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

127) A

Accrued interest expense: $6,400 × 12% × 2 ÷ 12 = $128

128) C

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Accrued interest expense: $8,000 × 9% × 2 ÷ 12 = $120

129) A
Accrued interest revenue: $9,600 × 10% × 3.5 ÷ 12 = $280

130) A
Accrued interest revenue: $6,000 × 10% × 3.5 ÷ 12 = $175

131) D

132) A

For remaining months on the policies:

Prepaid equipment insurance: $37,440 × 6 ÷ 18	$ 12,480
Prepaid crop damage insurance: $10,200 × 12 ÷ 24	5,100
Total prepaid insurance at 12/31/2024	$ 17,580

133) B

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 12/31/2024	$ 18,000

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134) D

Deferred Premium Revenues

Debit		Credit	
Balance		4,000,000	
Revenue recognized	?question mark	18,800,000	Cash collected
Ending Balance		8,900,000	

Revenue recognized = $4,000,000 + $18,800,000 − $8,900,000 = $13,900,000

135) B

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Deferred Premium Revenues

Debit		Credit	
Balance		6,000,000	
Revenue recognized	?question mark	18,000,000	Cash collected
Ending Balance		8,000,000	

Revenue recognized = $6,000,000 + $18,000,000 − $8,000,000 = $16,000,000

136) C
Interest payable = $27,600,000 × 7% × 2 ÷ 12 = $322,000

137) C
Interest payable = $30,000,000 × 9% × 2 ÷ 12 = $450,000

138) B
139) C
140) C
141) B
142) B
143) D
Revenues ($36,800) − Expenses ($6,200 + $21,700) = $8,900.

144) D
Revenues ($30,000) − Expenses ($4,500 + $20,000) = $5,500.

145) A
146) B
147) D
148) B
Beginning Retained Earnings ($26,700) + Net Income ($11,700) − Dividends ($5,700) = Ending Retained Earnings ($32,700).

149) D
Beginning Retained Earnings ($25,000) + Net Income ($10,000) − Dividends ($4,000) = Ending Retained Earnings ($31,000).

150) C

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Beginning Retained earnings ($64,200) − Net loss ($11,400) = Ending Retained earnings ($52,800)

151) C
Beginning Retained earnings ($60,000) − Net loss ($10,000) = Ending Retained earnings ($50,000)

152) D
153) B
154) D
Cash ($12,100), Accounts Receivable ($11,100), and Supplies ($41,600) are generally classified as current assets.

155) B
Cash ($10,500), Accounts Receivable ($9,500), and Supplies ($40,000) are generally classified as current assets.

156) B
Long-term assets include Land, Buildings, and Equipment.

157) C
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158) B
159) A
Deferred Revenue ($7,600), Accounts Payable ($21,400), and Interest Payable ($8,600) are typically current liabilities.

160) B
Deferred Revenue ($6,000), Accounts Payable ($15,000), and Interest Payable ($7,000) are typically current liabilities.

161) C
162) C
Assets include Cash ($12,400), Supplies ($4,900), Prepaid Rent ($2,400), and Equipment ($65,400).

163) D
Assets include Cash ($12,000), Supplies ($4,500), Prepaid Rent ($2,000), and Equipment ($65,000).

164) A

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Liabilities include Accounts Payable ($6,700).

165) A
Liabilities include Accounts Payable ($5,000).

166) A
Total shareholders' equity includes common stock plus (ending) retained earnings. Common stock is $69,300. Ending retained earnings = beginning retained earnings ($9,300) plus revenues ($35,200) less expenses ($27,100) less dividends ($4,300) = $13,100. Total shareholders' equity = $69,300 + $13,100 = $82,400.

167) B
Total shareholders' equity includes common stock plus (ending) retained earnings. Common stock is $68,000. Ending retained earnings = beginning retained earnings ($8,000) plus revenues ($30,000) less expenses ($24,500) less dividends ($3,000) = $10,500. Total shareholders' equity = $68,000 + $10,500 = $78,500.

168) C
169) A
170) A
171) A
172) D
173) A
174) B
175) A

Collections	$ 72,500
Payments for expenses	(19,800)
Add: Increase in assets (accounts receivable)	5,200
Deduct: Decrease in assets (accumulated depreciation)	(3,100)
Deduct: Decrease in assets (prepaid expenses)	(2,900)
Add: Decrease in liabilities (accrued liabilities)	2,900
Accrual-basis net income	$ 54,800

176) C

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

177) C

Collections	$ 43,900
Payments for expenses	(14,000)
Add: Increase in assets (accounts receivable)	1,150
Increase in assets (supplies)	3,900
Deduct: Decrease in assets (accumulated depreciation)	(2,700)
Deduct: Increase in liabilities (accrued liabilities)	(1,850)
Accrual-basis net income	$ 30,400

178) D

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

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179) A

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Accounts Receivable

Debit		Credit	
Beginning Balance	18,300		
Sales	155,000	158,200	Cash received
Ending Balance	15,100		

Accounts payable

Debit		Credit	
Beginning Balance		10,100	
Cash paid	84,500	88,000	Purchases*Footnote asterisk
Ending Balance		13,600	

*Footnote asteriskNote: Cash paid is the same regardless of whether purchases are all on account, all in cash, or any mix thereof. For instance, if credit purchases had been $61,000and cash purchases had been $27,000, cash paid on account here would have been $57,500 which when combined with cash purchases still would have been $84,500. Likewise, Cash received is the same regardless of whether sales are all on account, all in cash, or any mix thereof.
Net cash received = $158,200 − $84,500 = $73,700

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180) C

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Accounts Receivable

Debit		Credit	
Beginning Balance	18,000		
Sales	150,000	152,000	Cash received
Ending Balance	16,000		

Accounts payable

Debit		Credit	
Beginning Balance		12,000	
Cash paid	94,000	95,000	Purchases*Footnote asterisk
Ending Balance		13,000	

*Footnote asteriskNote: Cash paid is the same regardless of whether purchases are all on account, all in cash, or any mix thereof. For instance, if credit purchases had been $55,000and cash purchases had been $40,000, cash paid on account here would have been $54,000 which when combined with cash purchases still would have been $94,000. Likewise, Cash received is the same regardless of whether sales are all on account, all in cash, or any mix thereof.
Net cash received = $152,000 – $94,000 = $58,000

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181) C
182) B
183) A
184) C

Collections	$ 6,900,000	(Cash basis income)
Expenses incurred but not paid	(2,129,000)	
Accrual basis net income	$ 4,771,000	

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

185) C

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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.

186) A

Prepaid Insurance

Debit		Credit	
Beginning Balance	52,500	218,550	Insurance expense
Cash paid	?question mark		
Balance	62,950		

Cash paid for insurance = $218,550 − $52,500 + $62,950 = $229,000

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187) D

Prepaid Insurance

Debit		Credit	
Beginning Balance	52,500	218,750	Insurance expense
Cash paid	?question mark		
Balance	61,250		

Cash paid for insurance = $218,750 − $52,500 + $ 61,250 = $227,500

188) Essay

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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 all general ledger accounts and their balances prepared after all adjusting entries have been recorded.	5
4. Unadjusted trial balance	A list of general ledger accounts and their balances at a particular date after recording all transactions during the period but before any adjusting entries.	4
5. Adjusted trial balance	A list of all permanent accounts and their balances after closing entries have been recorded.	2

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189) Essay

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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	Presents financial position on a particular date showing resources equal claims to resources.	1
4. Statement of cash flows	Represents outflows of resources incurred to generate revenues.	3
5. Post-closing trial balance	A list of all permanent accounts and their balances after closing entries have been recorded.	5

190) Essay

TERM	PHRASE	Number for term that matches the phrase.
1. Periodic system	Increases in equity from peripheral or incidental transactions of an entity.	5
2. Prepayments	Decreases in equity arising from peripheral or incidental transactions of an entity.	4
3. Perpetual system	The cost of inventory purchased is recorded in a temporary account called purchases.	1
4. Losses	When inventory is sold, the inventory account is decreased by the cost of the item sold.	3
5. Gains	When cash flow precedes either expense or revenue recognition.	2

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191) Essay

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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	Transfer the balances of temporary accounts to the retained earnings account and reduces the balances of the temporary accounts to zero.	5

192) Essay

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 claims to the assets of an entity by its creditors.	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

193) Essay

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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

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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	A list of all permanent accounts and their balances after closing entries have been recorded.	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 general ledger accounts and their balances at a particular date after recording all transactions during the period but before any adjusting entries.	1
10. Post-closing trial balance	Expenses incurred but not yet paid.	5

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195) Essay

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	A	B
	Effect of a Debit	**Classification**
Office equipment	1 Increase	2 A noncurrent asset in the balance sheet
Notes payable (short-term)	2 Decrease	3 A current liability in the balance sheet
Cost of goods sold	1 Increase	7 An expense account in the income statement
Accounts receivable	1 Increase	1 A current asset in the balance sheet
Inventory	1 Increase	1 A current asset in the balance sheet
Deferred rent revenue	2 Decrease	3 A current liability in the balance sheet
Salaries payable	2 Decrease	3 A current liability in the balance sheet
Retained earnings	2 Decrease	5 A permanent equity account in the balance sheet
Interest revenue	2 Decrease	6 A revenue account in the income statement
Supplies expense	1 Increase	7 An expense account in the income statement
Prepaid rent	1 Increase	1 A current asset in the balance sheet
Common stock	2 Decrease	5 A permanent equity account in the balance sheet

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196) Essay

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

197) Essay

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TRANSACTION	Account(s) debited	Account(s) credited	Transaction type
Invested excess cash in a certificate of deposit that matures in six months.	1120	1100	1

198) Essay

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

199) Essay

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

200) Essay

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

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201) Essay

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

202) Essay

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

203) Essay

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

204) Essay

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

205) Essay

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

206) Essay

TRANSACTION	Account(s) debited	Account(s) credited	Transaction type
Salaries have been recognized but are unpaid at the end of an accounting period.	6270	2150	2

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207) Essay

TRANSACTION	Account(s) debited	Account(s) credited	Transaction type
Closed the dividends account.	3200	6999	3

208) Essay

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

209) Essay

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

210) Essay

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

211) Essay

Transaction	Account Title	Debit	Credit
1.	Inventory	9,500	
	Accounts payable		9,500
2.	Salaries expense	1,050	
	Cash		1,050
3.	Cash	8,400	
	Accounts Receivable	6,600	
	Sales revenue		15,000
4.	Accounts payable	9,500	
	Cash		9,500
5.	No Entry.		

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212) Essay

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Transaction	Account Title	Debit	Credit
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.		

213) Essay

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Transaction	Account Title	Debit	Credit
1.	Cash	40,000	
	Common stock		40,000
2.	Prepaid rent	4,200	
	Cash		4,200
3.	Equipment	7,400	
	Notes payable		7,400
4.	Supplies inventory	3,800	
	Accounts payable		3,800
5.	Cash	2,800	
	Sales revenue		2,800
6.	Salaries expense	1,320	
	Cash		1,320
7.	Accounts payable	3,800	
	Cash		3,800
8.	Depreciation expense	120	
	Accumulated depreciation		120

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214) Essay

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Transaction	Account Title	Debit	Credit
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

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215) Essay

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Transaction	Account Title	Debit	Credit
1.	Supplies expense	500	
	Supplies		500
2.	Prepaid insurance	210	
	Insurance expense		210
3.	Salaries expense	1,640	
	Salaries payable		1,640
4.	Utilities expense	360	
	Utilities payable		360

216) Essay

Transaction	Account Title	Debit	Credit
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

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217) Essay

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D. Kay Dental Laboratories
Statement of Shareholders' Equity
For the Year Ended December 31, 2024

	Common Stock	Retained Earnings	Total Shareholders' Equity
Balance, January 1, 2024	$ 84,000	$ 89,000*Footnote asterisk	$ 173,000
Issue of common stock	34,000		34,000
Net income for 2024		56,000	56,000
Less: Dividends		−32,000	−32,000
Balance, December 31, 2024	$ 118,000	$ 113,000	$ 231,000

*Footnote asterisk Beginning balance, Retained Earnings = Ending balance at December 31, 2023:
$67,000 + $51,000 − $29,000 = $89,000

218) Essay

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D. Kay Dental Laboratories
Statement of Shareholders' Equity
For the Year Ended December 31, 2024

	Common Stock	Retained Earnings	Total Shareholders' Equity
Balance, January 1, 2024	$ 70,000	$ 75,000*Footnote asterisk	$ 145,000
Issue of common stock	20,000		20,000
Net income for 2024		42,000	42,000
Less: Dividends		−18,000	−18,000
Balance, December 31, 2024	$ 90,000	$ 99,000	$ 189,000

*Footnote asterisk Beginning balance, Retained Earnings = Ending balance at December 31, 2023:
$53,000 + $37,000 − $15,000 = $75,000

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219) Essay

1. $2,760 represents six months of interest on a $46,000 note, or 50% of annual interest. $2,760 ÷ 0.50 = $5,520 in annual interest $5,520 ÷ $46,000 = 12% interest rate Or, Principal × Rate × Time = Interest $46,000 × Rate × 6 ÷ 12 = $2,760 $2,760 ÷ $46,000 = 0.060 six-month rate To annualize the nine month rate: 0.060 × 12 ÷ 6 = 0.12 or 12%
2. $138,000 ÷ 12 months = $11,500 per month in insurance $92,000 ÷ $11,500 = 8 months expired. The insurance was paid on May 1, eight months ago.
3. Principal × Rate × Time = Interest Principal × 9% × (4 ÷ 12) = $5,520 Principal × 3% = $5,520 Principal = $184,000 Or $5,520 represents four months (September through December) in accrued interest, or $1,380 per month. $1,380 × 12 months = $16,560 in annual interest Principal × 9% = $16,560 Principal = $16,560 ÷ 0.09 = $184,000 note

220) Essay

4. $1,800 represents six months of interest on a $30,000 note, or 50% of annual interest. $1,800 ÷ 0.50 = $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 = 0.06 six-month rate To annualize the nine month rate: 0.06 × 12 ÷ 6 = 0.12 or 12%
5. $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.
6. 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 ÷ 0.09 = $100,000 note

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221) Essay

Additional Information	12/31/2024 Assets	12/31/2024 Liabilities	12/31/2024 Owners' Equity	2024 Net Income
$2,200 interest on a loan was not yet paid or recorded	No Effect	Understated 2,200	Overstated 2,200	Overstated 2,200

222) Essay

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Additional Information	12/31/2024 Assets	12/31/2024 Liabilities	12/31/2024 Owners' Equity	2024 Net Income
$2,000 interest on a loan was not yet paid or recorded	No Effect	Understated 2,000	Overstated 2,000	Overstated 2,000

223) Essay

Additional Information	12/31/2024 Assets	12/31/2024 Liabilities	12/31/2024 Owners' Equity	2024 Net Income
The estimated uncollectible accounts receivable is now zero and should be $40,000.	Overstated 40,000	No Effect	Overstated 40,000	Overstated 40,000

224) Essay

Additional Information	12/31/2024 Assets	12/31/2024 Liabilities	12/31/2024 Owners' Equity	2024 Net Income
The estimated uncollectible accounts receivable is now zero and should be $25,000.	Overstated 25,000	No Effect	Overstated 25,000	Overstated 25,000

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225) Essay

Additional Information	12/31/2024 Assets	12/31/2024 Liabilities	12/31/2024 Owners' Equity	2024 Net Income
$24,000 of the paid and recorded rent expense pertains to the year 2025.	Understated 24,000	No Effect	Understated 24,000	Understated 24,000

226) Essay

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Additional Information	12/31/2024 Assets	12/31/2024 Liabilities	12/31/2024 Owners' Equity	2024 Net Income
$10,000 of the paid and recorded rent expense pertains to the year 2025.	Understated 10,000	No Effect	Understated 10,000	Understated 10,000

227) Essay

Additional Information	12/31/2024 Assets	12/31/2024 Liabilities	12/31/2024 Owners' Equity	2024 Net Income
$26,000 in depreciation on some equipment was still unrecorded.	Overstated 26,000	No Effect	Overstated 26,000	Overstated 26,000

228) Essay

Additional Information	12/31/2024 Assets	12/31/2024 Liabilities	12/31/2024 Owners' Equity	2024 Net Income
$20,000 in depreciation on some equipment was still unrecorded.	Overstated 20,000	No Effect	Overstated 20,000	Overstated 20,000

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229) Essay

Additional Information	12/31/2024 Assets	12/31/2024 Liabilities	12/31/2024 Owners' Equity	2024 Net Income
$6,000 in cash dividends declared and paid in December 2024 were unrecorded.	Overstated 6,000	No Effect	Overstated 6,000	No Effect

230) Essay

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Additional Information	12/31/2024 Assets	12/31/2024 Liabilities	12/31/2024 Owners' Equity	2024 Net Income
$4,000 in cash dividends declared and paid in December 2024 were unrecorded.	Overstated 4,000	No Effect	Overstated 4,000	No Effect

231) Essay

Additional Information	12/31/2024 Assets	12/31/2024 Liabilities	12/31/2024 Owners' Equity	2024 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.	Overstated	No Effect	Overstated	Overstated

232) Essay

Additional Information	12/31/2024 Assets	12/31/2024 Liabilities	12/31/2024 Owners' Equity	2024 Net Income
The journal entry for depreciation on equipment for 2024 was recorded for $48,000. The amount should have been $66,000.	Overstated	No Effect	Overstated	Overstated

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233) Essay

Additional Information	12/31/2024 Assets	12/31/2024 Liabilities	12/31/2024 Owners' Equity	2024 Net Income
Cash dividends declared and paid on December 15, 2024, were not recorded.	Overstated	No Effect	Overstated	No Effect

234) Essay

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Additional Information	12/31/2024 Assets	12/31/2024 Liabilities	12/31/2024 Owners' Equity	2024 Net Income
$10,000 of the rent revenue collected and recorded as revenue this year pertains to 2025.	No Effect	Understated	Overstated	Overstated

235) Essay

Additional Information	12/31/2024 Assets	12/31/2024 Liabilities	12/31/2024 Owners' Equity	2024 Net Income
Interest earned during the year on a note receivable was not yet collected or recorded.	Understated	No Effect	Understated	Understated

236) Essay

Additional Information	12/31/2024 Assets	12/31/2024 Liabilities	12/31/2024 Owners' Equity	2024 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.	Understated	No Effect	Understated	Understated

237) Essay

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Transaction	Account Title	Debit	Credit
1.	Sales revenue	600,000	
	Retained earnings		600,000
2.	Retained earnings	513,500	
	Cost of goods sold		280,000
	Salaries expense		140,000
	Rent expense		35,000
	Depreciation expense		50,000
	Interest expense		4,000
	Advertising expense		4,500
3.	Retained earnings	18,000	
	Dividends		18,000

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238) Essay

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Transaction	Account Title	Debit	Credit
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

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239) Essay

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China Tea Company
Income Statement
For the Year Ended December 31, 2024

Sales revenue		$ 560,000
Cost of goods sold		260,000
Gross profit		300,000
Operating expenses:		
Salaries expense	$ 136,000	
Rent expense	31,000	
Depreciation expense	46,000	
Advertising expense	4,100	
Total operating expenses		217,100
Operating income		82,900
Other expense:		
Interest expense		3,600
Net income		$ 79,300

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240) Essay

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China Tea Company
Income Statement
For the Year Ended December 31, 2024

Sales revenue		$ 400,000
Cost of goods sold		180,000
Gross profit		220,000
Operating expenses:		
Salaries expense	$ 120,000	
Rent expense	15,000	
Depreciation expense	30,000	
Advertising expense	2,500	
Total operating expenses		167,500
Operating income		52,500
Other expense:		
Interest expense		2,000
Net income		$ 50,500

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241) Essay

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China Tea Company
Balance Sheet
At December 31, 2024

Assets		
Current assets:		
Cash		$ 12,000
Accounts receivable		165,000
Inventory		40,000
Prepaid rent		6,500
Total current assets		223,500
Property and equipment:		
Equipment	450,000	
Less: Accumulated depreciation	140,000	310,000
Total assets		$ 533,500
Liabilities and Shareholders' Equity		
Current liabilities:		
Accounts payable		$ 45,000
Notes payable		45,000
Salaries payable		5,500
Interest payable		16,600
Total current liabilities		112,100
Shareholders' equity:		
Common stock	$ 275,000	
Retained earnings	146,400	
Total shareholders' equity		421,400

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Total liabilities and shareholders' equity	$ 533,500

242) Essay

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China Tea Company
Balance Sheet
At December 31, 2024

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

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Total liabilities and shareholders' equity	$ 365,500

243) Essay

Krafty Foods
Income Statement
For the Year Ended December 31, 2024
($ in millions)

Operating revenues	$ 36,375
Cost of goods sold	18,031
Gross profit	18,344
Salaries expense	2,065
Marketing, general and administration expenses	11,960
Operating income	4,319
Interest and other debt expense, net	1,937
Net income	$ 2,382

244) Essay

Krafty Foods
Income Statement
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For the Year Ended December 31, 2024
($ 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

245) Essay

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Krafty Foods
Balance Sheet
At December 31, 2024

($ in millions)	
Assets	
Current assets:	
Cash and cash equivalents	$ 222
Accounts receivable (net)	3,731
Inventories	3,626
Other current assets	747
Total current assets	8,326
Property, plant and equipment (net)	9,709
Goodwill and other intangible assets (net)	37,757
Other noncurrent assets	4,326
Total assets	$ 60,118
Liabilities and Shareholders' Equity	
Accounts payable	$ 2,497
Accrued liabilities	4,705
Short-term borrowings	741
Other current payables	2,252
Current portion of long-term debt	600
Total current liabilities	10,795
Long-term debt	8,734
Other long-term liabilities	10,911
Long-term notes payable	5,600

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Total liabilities		36,040
Common stock	$ 24,255	
Retained earnings	2,991	
Other shareholders' equity	(3,168)	
Total shareholders' equity		24,078
Total liabilities and shareholders' equity		$ 60,118

246) Essay

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Krafty Foods
Balance Sheet
At December 31, 2024

($ 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

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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

247) Essay
Kline's 2024 net income (or loss) = $67,000
Computation: $794,000 − $488,000 − $68,000 − $5,000 − $38,000 − $128,000

248) Essay
Kline's 2024 net income (or loss) = $76,000
Computation: $770,000 − $480,000 − $60,000 − $4,000 − $30,000 − $120,000

249) Essay
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Kline's 12/31/2024 total current assets = $400,000
Computation: $44,000 + $188,000 + $168,000

250) Essay
Kline's 12/31/2024 total current assets = $346,000
Computation: $26,000 + $170,000 + $150,000

251) Essay
Kline's 12/31/2024 total current liabilities = $182,000
Computation: $98,000 + $68,000 + $16,000

252) Essay
Kline's 12/31/2024 total current liabilities = $158,000
Computation: $90,000 + $60,000 + $8,000

253) Essay
Kline's 12/31/2024 total owners' equity = $640,000
Computation: $502,000 + $79,000 + $59,000 (Net Income), (or Total Assets − Total Liabilities)

254) Essay

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Kline's 12/31/2024 total owners' equity = $628,000
Computation: $490,000 + $62,000 + $76,000 (Net Income), (or Total Assets − Total Liabilities)

255) Essay
December 31, 2024

Account Title	Debit	Credit
Sales revenue	812,000	
Dividend revenue	435,000	
Retained earnings		816,600
Retained earnings	725,600	
Loss on sale of investments		9,600
Salaries expense		106,000
Miscellaneous expense		28,000
Cost of goods sold		435,000
Insurance expense		36,000
Depreciation expense		34,000
Administrative expense		51,000
Rent expense		26,000
Retained earnings	21,000	
Dividends		21,000

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256) Essay

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December 31, 2024

Account Title	Debit	Credit
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

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257) Essay

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Sales revenue:	
Cash collected from customers	$ 505,000
Add: Increase in accounts receivable	39,000
Sales revenue	$ 544,000
Interest revenue:	
Cash received	$ 3,050
Add: Amount accrued at the end of 2024 ($61,000 × 0.05 × 6 ÷ 12)	1,525 (a) Footnote (a)
Deduct: Amount accrued at the end of 2023	(1,525)
Interest revenue	$ 3,050
Cost of goods sold:	
Cash paid for inventory	$ 231,000
Add: Increase in accounts payable	23,000
Purchases during 2024	254,000
Deduct: Increase in inventory	(33,000)
Cost of goods sold	$ 221,000
Insurance expense:	
Cash paid	$ 6,000
Add: Prepaid insurance expired during 2024	2,000
Deduct: Prepaid insurance on 12/31/2024 ($6,000 × 3 ÷ 12)	(1,500) (b) Footnote (b)
Insurance expense	$ 6,500
Salaries expense:	
Cash paid	$ 191,000
Add: Increase in salaries payable	19,000
Salaries expense	$ 210,000
Rent expense:	
Amount paid	$ 17,000
Add: Prepaid rent on 12/31/2023 expired during 2024	6,000
Deduct: Prepaid rent on 12/31/2024 ($17,000 × 9 ÷ 12)	(12,750) (c) Footnote (c)
Rent expense	$ 10,250

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Depreciation expense: Increase in accumulated depreciation	$ 26,000	

Raintree Corporation
Income statement
For the Year Ended December 31, 2024

Sales revenue		$ 544,000
Cost of goods sold		221,000
Gross profit		323,000
Operating expenses:		
Insurance	$ 6,500	
Salaries	210,000	
Rent	10,250	
Depreciation	26,000	
Total operating expenses		252,750
Operating income		70,250
Other income (expense):		
Interest revenue		3,050
Net income		$ 73,300

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a. Interest receivable (%media:F13252718794538163-1.ext% year × 3,050)	$ 1,525
b. Prepaid insurance (%media:F13252718794538163-2.ext% year × 6,000)	1,500
c. Prepaid rent (%media:F13252718794538163-3.ext% year × 17,000)	12,750

258) Essay

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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 2024 ($50,000 × 0.06 × 6 ÷ 12)	1,500 (a) Footnote (a)
Deduct: Amount accrued at the end of 2023	(1,500)
Interest revenue	$ 3,000
Cost of goods sold:	
Cash paid for inventory	$ 220,000
Add: Increase in accounts payable	12,000
Purchases during 2024	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 2024	2,000
Deduct: Prepaid insurance on 12/31/2024 ($9,000 × 3 ÷ 12)	(2,250) (b) Footnote (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 12/31/2023 expired during 2024	7,000
Deduct: Prepaid rent on 12/31/2024 ($12,000 × 9 ÷ 12)	(9,000) (c) Footnote (c)

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Rent expense	$ 10,000	
Depreciation expense: Increase in accumulated depreciation	$ 15,000	

Raintree Corporation
Income statement
For the Year Ended December 31, 2024

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

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a. Interest receivable (%media:formula4.mml% year × 3,000)	$ 1,500
b. Prepaid insurance (%media:formula5.mml% year × 9,000)	2,250
c. Prepaid rent (%media:formula6.mml% year × 12,000)	9,000

259) Essay

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Account Title	Debit	Credit
December 31–adjusting entry		
Salaries expense	24,000	
Salaries payable		24,000
January 1–reversing entry		
Salaries payable	24,000	
Salaries expense		24,000
January 7–payment of salaries		
Salaries expense	24,000	
Cash		24,000

Account Title	Debit	Credit
December 31–adjusting entry		
Salaries expense	24,000	
Salaries payable		24,000
January 7–payment of salaries		
Salaries payable	24,000	
Cash		24,000

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260) Essay

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Account Title	Debit	Credit
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

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

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261) Essay

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 an exchange transaction with another entity. Examples include depreciation of equipment or use of supplies.

262) Essay

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.

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263) Essay
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.

264) Essay
An accrued liability results from an expense being incurred prior to cash payment. Examples include interest payable and salaries payable.

265) Essay
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.

266) Essay
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.

267) Essay
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.

268) Essay

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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

269) Essay

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 inventory on account.	PJ
5. Sold inventory on account (the sale only, not the cost of the inventory).	SJ
6. Sold inventory for cash (the sale only, not the cost of the inventory).	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

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