

Appendix C

The Language of Accountants: Debits and Credits

Learning Objectives – Coverage by question				
	True / False	Multiple Choice	Exercises	Problems
LO1 – Describe the system of debits and credits and its use in recording transactions.	1 - 15	1 - 38	1 - 3	1 - 4
LO2 – Illustrate the adjusting process using debits and credits.	16 – 19	39 – 66	4, 5	5 – 8
LO3 – Explain the adjusted trial balance and use it to prepare financial statements.	20	64 – 66	6, 7	
LO4 – Describe the closing process and summarize the accounting cycle.	21 – 25	67 – 75	8 – 10	9

Appendix C: The Language of Accountants: Debits and Credits

True / False

Topic: Debits and Credits

LO: 1

1. Regardless of the business activity recorded, the left side of an account is the debit side and the right side is the credit side.

Answer: True

Topic: Normal Balances

LO: 1

2. All accounts have normal balances on the debit side.

Answer: False

Rationale: Asset, dividend, and expense accounts normally have debit balances, while liabilities, common stock, and revenue accounts normally have credit balances.

Topic: Normal Balances

LO: 1

3. The normal balance in a revenue account is a credit balance.

Answer: True

Topic: Debits and Credits

LO: 1

4. Asset accounts are increased with debit entries.

Answer: True

Topic: Debits and Credits

LO: 1

5. Expense accounts are increased with credit entries.

Answer: False

Rationale: Expense accounts are increased with debit entries and decreased with credit entries.

Topic: Normal Balances

LO: 1

6. The normal balance for an account is the side in which increases are recorded.

Answer: True

Topic: T-Account

LO: 1

7. The typical form of a T-account shows debits on the right and credits on the left.

Answer: False

Rationale: A T-account tracks debits on the left and credits on the right.

Topic: Debit and Credit System and Compound Entry

LO: 1

8. A compound entry does not necessarily have to maintain total debits equal to total credits.

Answer: False

Rationale: A compound entry must adhere to the rule: total debits equal total credits.

Topic: Transaction Analysis

LO: 1

9. The analysis of each transaction must result in equal amounts being recorded as debits and as credits.

Answer: True

Topic: Journalizing and Posting

LO: 1

10. Transactions are first recorded in a journal and then posted to the general ledger.

Answer: True

Topic: Journalizing and Posting

LO: 1

11. Transactions are first recorded in the general ledger and then posted to a journal.

Answer: False

Rationale: Transactions are first recorded in a journal and then posted to the general ledger.

Topic: Debits and Credits

LO: 1

12. Each transaction entered in a general journal must have equal dollar amounts of debits and credits.

Answer: True

Topic: Trial Balance

LO: 1

13. A trial balance is a list of the account titles in the general ledger with their respective debit and credit balances.

Answer: True

Topic: Trial Balance

LO: 1

14. One reason for preparing a trial balance is to determine if the debits and credits in the general ledger are equal.

Answer: True

Topic: Trial Balance

LO: 1

15. One reason for preparing a trial balance is to make sure that all of the period's transactions have been recorded.

Answer: False

Rationale: A trial balance cannot assure you that all the period's transactions have been recorded.

Topic: Unadjusted Trial Balance

LO: 2

16. The purpose of an unadjusted trial balance is to be sure the general ledger is in balance.

Answer: True

Rationale: The primary purpose of the unadjusted trial balance is to ensure the general ledger is in balance before management posts adjusting entries.

Topic: Unadjusted Trial Balance

LO: 2

17. The trial balance prepared before the general ledger accounts are adjusted is called an adjusted trial balance.

Answer: False

Rationale: The trial balance prepared before the general ledger accounts are adjusted is called an unadjusted trial balance.

Topic: Unadjusted Trial Balance

LO: 2

18. An unadjusted trial balance shows the general ledger account balances before any adjustments have been made.

Answer: True

Topic: Adjusting Entries

LO: 2

19. Each adjusting entry affects a balance sheet account and an income statement account.

Answer: True

Topic: Adjusted Trial Balance

LO: 3

20. An adjusted trial balance is a listing of all the year-end balance sheet accounts, since all the income statement accounts have been closed to zero.

Answer: False

Rationale: The adjusted trial balance lists all general ledger accounts after adjustments have been posted. It contains much of the data needed to construct the financial statements, including the income statement.

Topic: Closing Entries

LO: 4

21. Adjusting entries must be journalized and posted before closing entries may be prepared.

Answer: True

Topic: Closing Entries

LO: 4

22. An account is closed at year-end when an entry changes its balance to zero.

Answer: True

Topic: Post-Closing Trial Balance

LO: 4

23. The post-closing trial balance includes only balance sheet accounts.

Answer: True

Topic: Accounting Cycle

LO: 4

24. The complete accounting cycle begins with the analysis of transactions and ends with the preparation of financial statements.

Answer: False

Rationale: The complete accounting cycle begins with the analysis of transactions and ends with the preparation of the post-closing trial balance.

Topic: Temporary Accounts

LO: 4

25. All accounts in the general ledger are closed at a company's fiscal year end in order to facilitate preparation of the financial statements and to ready the accounts for the activities of the next year.

Answer: False

Rationale: Only temporary accounts (revenue, expense and dividends) are closed at the end of the period. Balance sheet accounts, also known as permanent accounts, are not closed as the balances are carried over to the next accounting period.

Multiple Choice

Topic: Double-Entry Accounting

LO: 1

Level of Difficulty: EASY

1. The double-entry system of debits and credits means that:
- A) Two pieces of information must be recorded for each transaction--the date and the dollar amount.
 - B) Debits will be recorded twice as often as credits.
 - C) At least two entries, a debit and a credit, must be made for each transaction.
 - D) Each debit and credit will be recorded two times, once in the general ledger and once in the trial balance.
 - E) None of the above

Answer: C

Topic: Debits and Credits

LO: 1

Level of Difficulty: EASY

2. The term debit refers to:
- A) The left side of an account
 - B) The right side of an account
 - C) The side of an account on which increases are recorded
 - D) Both A and C
 - E) None of the above

Answer: A

Topic: Debits and Credits

LO: 1

Level of Difficulty: EASY

3. The term credit refers to:
- A) The left side of an account
 - B) The right side of an account
 - C) The side of an account on which decreases are recorded
 - D) Both B and C
 - E) None of the above

Answer: B

Topic: Normal Balance

LO: 1

Level of Difficulty: EASY

4. The normal balance of an account is:
- A) The debit side
 - B) The credit side
 - C) The side on which increases are recorded
 - D) The side on which decreases are recorded
 - E) None of the above

Answer: C

Topic: Normal Balance

LO: 1

Level of Difficulty: EASY

5. Which of the following accounts normally has a credit balance?
- A) Accounts Receivable
 - B) Dividends
 - C) Notes Payable
 - D) Rent Expense
 - E) None of the above

Answer: C

Topic: Normal Balance

LO: 1

Level of Difficulty: EASY

6. Which of the following accounts normally has a debit balance?
- A) Accounts Payable
 - B) Common Stock
 - C) Dividends
 - D) Service Fees Earned
 - E) None of the above

Answer: C

Topic: Debits and Credits

LO: 1

Level of Difficulty: EASY

7. Debits to which accounts result in an increased balance?
- A) Assets and common stock
 - B) Revenues and assets
 - C) Common stock and expenses
 - D) Assets and expenses
 - E) Liabilities and expenses

Answer: D

Topic: Debits and Credits

LO: 1

Level of Difficulty: MEDIUM

8. In a double-entry accounting system:
- A) All accounts have normal debit balances
 - B) A debit entry is recorded on the left side of an account
 - C) Liabilities, owner's common, and expense accounts all have normal credit balances
 - D) A credit entry records a decrease in an account
 - E) None of the above

Answer: B

Topic: Analyzing an Account

LO: 1

Level of Difficulty: MEDIUM

9. The Cash T-account has a beginning balance of \$26,000. During the year, \$122,000 was debited and \$120,500 was credited to the account.

What is the ending balance of cash?

- A) (\$2,500)
- B) \$27,500
- C) \$18,500
- D) Cannot be determined from the information given

Answer: B

Rationale: $\$26,000 + \$122,000 - \$120,500 = \$27,500$

Topic: Analyzing an Account

LO: 1

Level of Difficulty: MEDIUM

10. If the beginning Cash account balance was \$18,400, the ending balance was \$10,200, and total cash received during the period was \$44,000, what amount of cash was paid out during the period?

- A) \$52,200
- B) \$35,800
- C) \$ 1,800
- D) \$42,400
- E) None of the above

Answer: A

Rationale: $\$18,400 + \$44,000 - \$10,200 = \$52,200$

Topic: Recording Transactions

LO: 1

Level of Difficulty: EASY

11. Which of the following journal entries will record the payment of a \$850 accounts payable originally incurred for Office Supplies?

- A) Debit Office Supplies; credit Cash
- B) Debit Office Supplies; credit Accounts Payable
- C) Debit Cash; credit Accounts Payable
- D) Debit Accounts Payable; credit Cash

Answer: D

Rationale: The original entry was:

Office supplies	850	
Accounts payable		850

The entry to record the payment of cash reduces the liability and reduces cash.

Accounts payable	850	
Cash		850

Topic: Recording Transactions

LO: 1

Level of Difficulty: EASY

12. A company bills customers for services rendered on account. Which of the following is one part of recording this transaction?
- A) Debit Service Revenue
 - B) Credit Cash
 - C) Debit Accounts Receivable
 - D) Credit Unearned Revenue

Answer: C

Rationale: The journal entry includes a debit to Accounts Receivable and a credit to Service Revenue.

Topic: Reporting Financial Performance

LO: 1

Level of Difficulty: MEDIUM

13. Maxwell Industries recorded and paid \$700 advertising for the current month. Which occurred?
- A) Current assets increase
 - B) Current liabilities decrease
 - C) Net income decreases
 - D) Retained earnings increases

Answer: C

Rationale: Assets (cash) decrease and Advertising Expense (an operating expense) increases, causing operating income to decrease.

Topic: Recording Transactions

LO: 1

Level of Difficulty: EASY

14. When invoices are sent to customers billing them for services that have been performed, the correct transaction analysis is:
- A) Debit Accounts Receivable and credit Service Fees Earned
 - B) Debit Accounts Payable and credit Service Fees Earned
 - C) Debit Service Fees Earned and credit Accounts Receivable
 - D) Debit Cash and credit Service Fees Earned
 - E) Debit Accounts Receivable and credit Accounts Payable

Answer: A

Topic: Recording Transactions

LO: 1

Level of Difficulty: EASY

15. Recording the collection of accounts receivable from customers involves:
- A) Debiting Accounts Receivable and crediting Cash
 - B) Debiting Cash and crediting Service Fees Earned
 - C) Debiting Cash and crediting Accounts Payable
 - D) Debiting Cash and crediting Accounts Receivable
 - E) None of the above

Answer: D

Topic: Recording Transactions

LO: 1

Level of Difficulty: EASY

16. Recording a stock issuance in exchange for cash involves:

- A) Debiting Cash and crediting Notes Payable
- B) Debiting Cash and crediting Dividends
- C) Debiting Cash and crediting Common Stock
- D) Debiting Common Stock and crediting Cash
- E) None of the above

Answer: C

Topic: Recording Transactions

LO: 1

Level of Difficulty: EASY

17. Recording the borrowing of money for which a note is signed involves:

- A) Debiting Cash and crediting Notes Receivable
- B) Debiting Cash and crediting Accounts Payable
- C) Debiting Cash and crediting Service Fees Earned
- D) Debiting Cash and crediting Notes Payable
- E) None of the above

Answer: D

Topic: Recording Transactions

LO: 1

Level of Difficulty: EASY

18. Paying a previously recorded invoice from a supplier (of supplies) involves:

- A) Debiting Supplies and crediting Cash
- B) Debiting Accounts Payable and crediting Cash
- C) Debiting Supplies and crediting Accounts Payable
- D) Debiting Cash and crediting Supplies
- E) None of the above

Answer: B

Topic: Recording Transactions

LO: 1

Level of Difficulty: EASY

19. Recording the payment of dividends to shareholders involves:

- A) Debiting Dividends and crediting Cash
- B) Debiting Cash and Common Stock
- C) Debiting Withdrawal Expense and crediting Cash
- D) Debiting Notes Payable and crediting Cash
- E) None of the above

Answer: A

Topic: Compound Journal Entries

LO: 1

Level of Difficulty: MEDIUM

20. Which of the following transactions should be recorded using a compound journal entry?

- A) Common stock is issued for cash.
- B) The company receives payment on account from a customer.
- C) The company pays a two-year insurance premium.
- D) The company purchases a desk, paying 10% in cash with the balance due in 60 days.
- E) None of the above

Answer: D

Topic: General Journal

LO: 1

Level of Difficulty: MEDIUM

21. Which of the following is a correct statement?

- A) Any type of business transaction may be recorded in the general journal.
- B) Only compound journal entries are recorded in the general journal.
- C) The word journalize means to transfer information from the general journal to the general ledger.
- D) The use of a general journal eliminates the need for a general ledger.
- E) None of the above

Answer: A

Topic: Trial Balance

LO: 1

Level of Difficulty: EASY

22. A trial balance that balances is useful because it indicates with certainty that:

- A) All entries into accounts during the period were made correctly.
- B) All accounts have normal balances.
- C) Total debits in the general ledger equal total credits.
- D) All of the above
- E) None of the above

Answer: C

Topic: Trial Balance

LO: 1

Level of Difficulty: EASY

23. A trial balance can be described as:

- A) A list of general ledger account titles and balances at a certain date
- B) A grouping of the accounts used by an organization to prepare its basic financial statements
- C) A record on which are recorded the increases and decreases of a particular financial statement component, such as cash
- D) One of the basic financial statements of an organization
- E) None of the above

Answer: A

Topic: Trial Balance

LO: 1

Level of Difficulty: MEDIUM

24. A trial balance:

- A) Must balance when it is first prepared
- B) Will balance only if there are no errors in the general ledger accounts
- C) Will balance only if the total debits and total credits in the general ledger are equal
- D) Both B) and C)
- E) None of the above

Answer: C

Topic: Trial Balance

LO: 1

Level of Difficulty: MEDIUM

25. Which of the following errors may escape detection when a trial balance is prepared?

- A) Failing to record or enter a particular transaction
- B) Entering a transaction more than once
- C) Entering one or more amounts in the wrong accounts
- D) Making an error that exactly offsets the effect of another error
- E) All of the above

Answer: E

Rationale: If any of these errors occurred, the debits and credits of the trial balance would still be equal; therefore the errors may go undetected.

Topic: Trial Balance

LO: 1

Level of Difficulty: EASY

26. Which of the following shows all the general ledger account balances in one place?

- A) Chart of accounts
- B) Special journal
- C) Trial balance
- D) General journal
- E) None of the above

Answer: C

Topic: Transaction Analysis

LO: 1

Level of Difficulty: DIFFICULT

27. When Honest Abe received his paycheck, he realized that his employer made an error in computing his wages and overpaid him by \$1,300. So he promptly returned the excess amount.

When the employer receives a check from Abe for the amount of the overpayment, which of the following journal entries will be made by the employer?

- A) Debit Cash and credit Wages Expense
- B) Debit Wages Expense and credit Cash
- C) Debit Cash and Credit Wages Payable
- D) Debit Wages Payable and credit Wages Expense

Answer: A

Topic: Transaction Analysis**LO: 1****Level of Difficulty: MEDIUM**

28. Terry Company purchased supplies for \$7,000 on credit on January 1. On January 15, they made a cash payment of \$2,000 to the supplier, and signed a one -year note for the remaining amount to settle the account.

Terry Company's journal entry on January 15 will include:

- A) Debit Notes Payable for \$5,000
- B) Credit Accounts Payable for \$5,000
- C) Credit Notes Payable for \$5,000
- D) Debit Cash for \$5,000

Answer: C

Topic: Transaction Analysis**LO: 1****Level of Difficulty: DIFFICULT**

29. St. Clair Motor Supplies had the following transactions during December:

- Paid a note of \$17,000 owed since March plus \$425 for interest.
- Sold \$36,525 of merchandise to customers on account. Cost of goods sold was \$21,250.
- Paid accounts payable of \$2,050.

As a result of these transactions, at year-end, liabilities and stockholders' equity would show a total:

- A) Decrease by \$4,575
- B) Decrease by \$4,200
- C) Decrease by \$4,800
- D) Increase by \$13,425

Answer: B

Topic: Journal Entries**LO: 1****Level of Difficulty: MEDIUM**

30. During January, Wells Corporation purchased \$100,000 of inventory; they paid one-fourth in cash and signed a note for the remaining balance.

This transaction will be recorded as:

- | | | |
|------------------|---------|--------|
| A) Inventory | 100,000 | |
| Cash | | 75,000 |
| Notes Payable | | 25,000 |
| B) Inventory | 100,000 | |
| Cash | | 25,000 |
| Accounts Payable | | 75,000 |
| C) Inventory | 100,000 | |
| Accounts Payable | | 75,000 |
| Cash | | 25,000 |
| D) Inventory | 100,000 | |
| Cash | | 25,000 |
| Notes Payable | | 75,000 |

Answer: D

Topic: Transaction Analysis

LO: 1

Level of Difficulty: MEDIUM

31. Horizon Company, an internet service provider, has 1,000,000 customers. The customers make electronic payments of \$70 each for that month's service on the last day of each month. Horizon Company does not send any bills to their customers.

The company's journal entry on the day they receive the payment will include:

- A) A credit to Internet Service Revenue for \$70,000,000
- B) A debit to Accounts Receivable for \$70,000,000
- C) A credit to Accounts Receivable for \$70,000,000
- D) A debit to Internet Service Expense for \$70,000,000

Answer: A

Topic: Transaction Analysis

LO: 1

Level of Difficulty: MEDIUM

32. A customer received and then paid a \$9,000 utility bill from Maryland Power Company. The journal entry by Maryland Power Company to record receipt of the payment would include:

- A) A credit to Accounts Payable
- B) A credit to Accounts Receivable
- C) A credit to Utilities Revenue
- D) A debit to Accounts Receivable

Answer: B

Topic: Transaction Analysis

LO: 1

Level of Difficulty: MEDIUM

33. Jackson Company purchased a new car for \$30,000 by paying \$12,000 cash, and trading in an old car with a recorded net cost and market value of \$10,000. They also signed a Note for \$8,000.

The required journal entry will *not*:

- A) Debit New Car for \$30,000
- B) Debit Notes Payable for \$8,000
- C) Credit Old Car for \$10,000
- D) Credit Notes Payable for \$8,000

Answer: B

Topic: Journal Entries**LO: 1****Level of Difficulty: MEDIUM**

34. Kobe Company provided consulting service to a client on January 1, and billed them for \$15,000. On February 1, the client made cash payment of \$8,000 and signed a note for \$7,000 to settle the account.

What is Kobe Company's journal entry on February 1?

- | | | |
|---------------------|--------|--------|
| A) Cash | 8,000 | |
| Accounts Receivable | 7,000 | |
| Notes Receivable | | 15,000 |
| B) Accounts Payable | 15,000 | |
| Notes Payable | | 7,000 |
| Cash | | 8,000 |
| C) Cash | 8,000 | |
| Notes Receivable | 7,000 | |
| Consulting Revenue | | 15,000 |
| D) Cash | 8,000 | |
| Notes Receivable | 7,000 | |
| Accounts Receivable | | 15,000 |

Answer: D

Topic: Trial Balance**LO: 1****Level of Difficulty: DIFFICULT**

35. Which of the following errors, each considered individually, would cause the trial balance totals to be unequal?

- A) A transaction was not posted
- B) A payment of \$56 for insurance was posted as a debit of \$56 to Prepaid Insurance and a credit of \$56 to Cash
- C) A payment of \$211 to a creditor was posted as a debit of \$2,111 to Accounts Payable and a credit of \$211 to Cash
- D) Cash received from customers on account was posted as a debit of \$100 to Cash and a credit of \$100 to Accounts Payable

Answer: C

Topic: Trial Balance

LO: 1

Level of Difficulty: DIFFICULT

- 36.** The purchase of a delivery truck for \$9,500 (on credit) was posted as debit to Delivery Trucks for \$9,500, and a debit to Notes Payable for \$9,500.

What effect would this error have on the trial balance?

- A) The total of the Debit column of the trial balance will exceed the total of the Credit column by \$9,500.
- B) The total of the Credit column of the trial balance will exceed the total of the Debit column by \$9,500.
- C) The total of the Credit column of the trial balance will exceed the total of the Debit column by \$19,000.
- D) The total of the Debit column of the trial balance will exceed the total of the Credit column by \$19,000.

Answer: D

Topic: Trial Balance

LO: 1

Level of Difficulty: MEDIUM

- 37.** The unadjusted Trial Balance for Tyler Company shows the following accounts (in alphabetical order) on December 31, 2019. Each account shown has a normal balance.

Accounts Receivable	13,200
Building	53,900
Cash	5,600
Common Stock	73,000
Dividends	2,500
Land	20,800
Rent Expense	2,400
Retained Earnings, Jan 1, 2019	21,600
Service Revenue	11,300
Utilities Expense	?

Assuming the Trial Balance in balance, determine Tyler Company's Utilities Expense for 2019:

- A) \$3,900
- B) \$2,900
- C) \$9,500
- D) \$7,500

Answer: D

Topic: Unearned Income Adjusting Entries**LO: 2****Level of Difficulty: EASY**

40. P. Disco received \$2,400 from a tenant on December 1 for three months' rent of an office. This rent was for December, January, and February.

If Disco debited Cash and credited Unearned Rental Income for \$2,400 on December 1, what necessary adjustment would be made on December 31?

- | | | |
|---------------------------|-------|-------|
| A) Unearned Rental Income | 800 | |
| Rental Income | | 800 |
| B) Rental Income | 800 | |
| Unearned Rental Income | | 800 |
| C) Unearned Rental income | 1,600 | |
| Rental Income | | 1,600 |
| D) Rental Income | 1,600 | |
| Unearned Rental Income | | 1,600 |
| E) None of the above | | |

Answer: A

Rationale: Transfer $1/3 \times \$2,400 = \800 from Unearned Rental Income to Rental Income

Topic: Unearned Income Adjusting Entries**LO: 2****Level of Difficulty: MEDIUM**

41. Early in the accounting period, a customer paid \$1,500 for services in advance of receiving them; Cash was debited and Unearned Service Fees was credited for \$1,500. At the end of the accounting period, two-thirds of the services paid for had yet to be performed.

The proper adjusting entry is:

- | | | |
|--------------------------|-------|-------|
| A) Unearned Service Fees | 1,000 | |
| Service Fees Earned | | 1,000 |
| B) Service Fees Earned | 500 | |
| Unearned Service Fees | | 500 |
| C) Unearned Service Fees | 500 | |
| Service Fees Earned | | 500 |
| D) Service Fees Earned | 1,000 | |
| Unearned Service Fees | | 1,000 |
| E) None of the above | | |

Answer: C

Rationale: Transfer $1/3 \times \$1,500 = \500 from Unearned Service Fees to Service Fees Earned

Topic: Accrued Revenue Adjusting Entries**LO: 2****Level of Difficulty: MEDIUM**

42. On September 1, Best Company began a contract to provide services to Dildwood Company for six months, with the total \$10,800 payment to be made at the end of the six-month period. Equal services are provided each month. The firm uses the account Fees Receivable to reflect amounts due but not yet billed.

What proper adjusting entry would Best Company make on December 31, the end of the accounting period (no previous adjustment has been made)?

- | | | |
|--------------------------|--------|-------|
| A) Cash | 7,200 | |
| Service Fees Earned | | 7,200 |
| B) Fees Receivable | 10,800 | |
| Service Fees Earned | | 7,200 |
| Unearned Service Fees | | 3,600 |
| C) Fees Receivable | 7,200 | |
| Service Fees Earned | | 7,200 |
| D) Unearned Service Fees | 7,200 | |
| Service Fees Earned | | 7,200 |
| E) None of the above | | |

Answer: C

Rationale: Accrue $4/6 \times \$10,800 = \$7,200$ of Service Fees earned

Topic: Accrued Revenue Adjusting Entries**LO: 2****Level of Difficulty: EASY**

43. On December 31, the end of the accounting period, \$5,300 in service fees had been earned but not billed or received. The firm uses the account Fees Receivable to reflect amounts due but not yet billed.

The proper adjusting entry would be:

- | | | |
|--------------------------|-------|-------|
| A) Cash | 5,300 | |
| Service Fees Earned | | 5,300 |
| B) Fees Receivable | 5,300 | |
| Service Fees Earned | | 5,300 |
| C) Fees Receivable | 5,300 | |
| Unearned Service Fees | | 5,300 |
| D) Unearned Service Fees | 5,300 | |
| Service Fees Earned | | 5,300 |
| E) None of the above | | |

Answer: B

Topic: Prepaid Insurance Adjusting Entries**LO: 2****Level of Difficulty: MEDIUM**

44. Smith Company paid \$26,400 for a four-year insurance policy on September 1 and recorded the \$26,400 as a debit to Prepaid Insurance and a credit to Cash.

What adjusting entry should Smith make on December 31, the end of the accounting period (no previous adjustment has been made)?

- | | | |
|----------------------|--------|--------|
| A) Prepaid Insurance | 2,200 | |
| Insurance Expense | | 2,200 |
| B) Insurance Expense | 2,200 | |
| Prepaid Insurance | | 2,200 |
| C) Prepaid Insurance | 24,200 | |
| Insurance Expense | | 24,200 |
| D) Insurance Expense | 6,600 | |
| Prepaid Insurance | | 6,600 |
| E) None of the above | | |

Answer: B

Rationale: Transfer $4/48 \times \$26,400 = \$2,200$ from Prepaid Insurance to Insurance Expense

Topic: Prepaid Insurance Adjusting Entries**LO: 2****Level of Difficulty: MEDIUM**

45. Williams Company paid \$24,000 for a two-year insurance policy on October 1 and recorded the \$24,000 as a debit to Prepaid Insurance and a credit to Cash.

What adjusting entry should Williams make on December 31, the end of the accounting period (no previous adjustment has been made)?

- | | | |
|----------------------|--------|--------|
| A) Prepaid Insurance | 3,000 | |
| Insurance Expense | | 3,000 |
| B) Insurance Expense | 12,000 | |
| Prepaid Insurance | | 12,000 |
| C) Prepaid Insurance | 21,000 | |
| Insurance Expense | | 21,000 |
| D) Insurance Expense | 3,000 | |
| Prepaid Insurance | | 3,000 |
| E) None of the above | | |

Answer: D

Rationale: Transfer $3/24 \times \$24,000 = \$3,000$ from Prepaid Insurance to Insurance Expense

Topic: Supplies Expense Adjusting Entries**LO: 2****Level of Difficulty: MEDIUM**

46. Office Supplies had a beginning balance of \$8,000. During the month, purchases of office supplies totaling \$2,000 were debited to the Office Supplies account.

If \$3,000 worth of office supplies is still on hand at month-end, what is the proper adjusting entry?

- | | | |
|----------------------------|-------|-------|
| A) Office Supplies Expense | 7,000 | |
| Office Supplies | | 7,000 |
| B) Office Supplies | 3,000 | |
| Office Supplies Expense | | 3,000 |
| C) Office Supplies Expense | 3,000 | |
| Office Supplies | | 3,000 |
| D) Office Supplies | 3,000 | |
| Office Supplies Expense | | 3,000 |
| E) None of the above | | |

Answer: A

Rationale: Transfer \$8,000 + \$2,000 - \$3,000 = \$7,000 from Office Supplies to Office Supplies Expense

Topic: Supplies Expense Adjusting Entries**LO: 2****Level of Difficulty: MEDIUM**

47. Printing Supplies had a beginning balance of \$4,000. During the month, purchases of printing supplies totaling \$3,000 were debited to the Printing Supplies account.

If \$2,000 worth of printing supplies is still on hand at month-end, what is the proper adjusting entry?

- | | | |
|------------------------------|-------|-------|
| A) Printing Supplies Expense | 2,000 | |
| Printing Supplies | | 2,000 |
| B) Printing Supplies | 5,000 | |
| Printing Supplies Expense | | 5,000 |
| C) Printing Supplies Expense | 5,000 | |
| Printing Supplies | | 5,000 |
| D) Printing Supplies | 2,000 | |
| Printing Supplies Expense | | 2,000 |
| E) None of the above | | |

Answer: C

Rationale: Transfer \$4,000 + \$3,000 - \$2,000 = \$5,000 from Office Supplies to Office Supplies Expense

Topic: Supplies Expense Adjusting Entries**LO: 2****Level of Difficulty: MEDIUM**

48. During their first year, Smith and Associates bought \$16,000 worth of supplies *for* their CPA firm. When purchased, the supplies were debited to Supplies and credited to Accounts Payable.

What adjusting entry would Smith and Associates make if \$4,000 worth of supplies were on hand at year-end?

- | | | |
|----------------------|--------|--------|
| A) Supplies Expense | 12,000 | |
| Supplies | | 12,000 |
| B) Supplies | 4,000 | |
| Supplies Expense | | 4,000 |
| C) Supplies Expense | 4,000 | |
| Supplies | | 4,000 |
| D) Supplies | 12,000 | |
| Supplies Expense | | 12,000 |
| E) None of the above | | |

Answer: A

Rationale: Transfer \$16,000 - \$4,000 = \$12,000 from Supplies to Supplies Expense

Topic: Supplies Expense Adjusting Entries**LO: 2****Level of Difficulty: MEDIUM**

49. The Supplies account balance at the end of the period is \$22,000. Supplies totaling \$18,800 have been purchased during the period and debited to Supplies. A physical count shows \$5,000 worth of supplies on hand at the end of the period.

The proper adjusting entry is:

- | | | |
|----------------------|--------|--------|
| A) Supplies | 5,000 | |
| Supplies Expense | | 5,000 |
| B) Supplies Expense | 4,700 | |
| Supplies | | 4,700 |
| C) Supplies Expense | 17,000 | |
| Supplies | | 17,000 |
| D) Supplies Expense | 18,800 | |
| Supplies | | 18,800 |
| E) None of the above | | |

Answer: C

Rationale: Transfer \$22,000 - \$5,000 = \$17,000 from Supplies to Supplies Expense

Topic: Prepaid Rent Adjusting Entries**LO: 2****Level of Difficulty: MEDIUM**

50. West Company signed a one-year lease on April 1 and paid the \$11,400 total year's rent in advance. West recorded the transaction as a debit to Prepaid Rent and a credit to Cash.

What adjusting entry should West make on December 31 (no previous adjustment has been made)?

- | | | |
|----------------------|-------|-------|
| A) Prepaid Rent | 2,850 | |
| Rent Expense | | 2,850 |
| B) Prepaid Rent | 8,550 | |
| Rent Expense | | 8,550 |
| C) Rent Expense | 8,550 | |
| Prepaid Rent | | 8,550 |
| D) Rent Expense | 2,850 | |
| Prepaid Rent | | 2,850 |
| E) None of the above | | |

Answer: C

Rationale: Transfer $9/12 \times \$11,400 = \$8,550$ from Prepaid Rent to Rent Expense

Topic: Prepaid Rent Adjusting Entries**LO: 2****Level of Difficulty: MEDIUM**

51. Forrester Company signed a two-year lease on July 1 and paid the \$17,400 total rent in advance. Forrester recorded the transaction as a debit to Prepaid Rent and a credit to Cash.

What adjusting entry should Forrester make on December 31 (no previous adjustment has been made)?

- | | | |
|----------------------|--------|--------|
| A) Prepaid Rent | 13,050 | |
| Rent Expense | | 13,050 |
| B) Prepaid Rent | 4,350 | |
| Rent Expense | | 4,350 |
| C) Rent Expense | 8,700 | |
| Prepaid Rent | | 8,700 |
| D) Rent Expense | 4,350 | |
| Prepaid Rent | | 4,350 |
| E) None of the above | | |

Answer: D

Rationale: Transfer $6/24 \times \$17,400 = \$4,350$ from Prepaid Rent to Rent Expense

Topic: Interest Expense Accrual**LO: 2****Level of Difficulty: EASY**

52. Likert Company calculates that interest of \$900 has accrued at December 31 on outstanding notes payable. How should Likert record this on December 31?

- | | | |
|----------------------|-----|-----|
| A) Prepaid Interest | 900 | |
| Interest Expense | | 900 |
| B) Interest Expense | 900 | |
| Interest Payable | | 900 |
| C) Interest Expense | 900 | |
| Cash | | 900 |
| D) Interest Payable | 900 | |
| Interest Expense | | 900 |
| E) None of the above | | |

Answer: B

Topic: Wages Expense Accrual**LO: 2****Level of Difficulty: MEDIUM**

53. Assume December 31 is a Wednesday. Wages are paid every Friday, and the weekly payroll (for five days) amounts to \$3,000.

To record the correct amount of expense for December, the firm makes the following entry on December 31:

- | | | |
|----------------------|-------|-------|
| A) Wages Payable | 3,000 | |
| Wages Expense | | 3,000 |
| B) Wages Payable | 1,800 | |
| Wages Expense | | 1,800 |
| C) Wages Expense | 1,680 | |
| Wages Payable | | 1,680 |
| D) Wages Expense | 1,800 | |
| Wages Payable | | 1,800 |
| E) None of the above | | |

Answer: D

Rationale: Accrue $3/5 \times \$3,000 = \$1,800$ of Wages Expense

Topic: Interest Income Accrual**LO: 2****Level of Difficulty: MEDIUM**

54. Benson Company calculates it has earned (but not yet collected or recorded) interest of \$525 at December 31 on outstanding notes receivable.

How should Benson record this on December 31?

- | | | |
|------------------------|-----|-----|
| A) Interest Receivable | 525 | |
| Interest Payable | | 525 |
| B) Interest Receivable | 525 | |
| Interest Income | | 525 |
| C) Interest Payable | 525 | |
| Interest Income | | 525 |
| D) Interest Income | 525 | |
| Interest Receivable | | 525 |
| E) None of the above | | |

Answer: B

Topic: Wages Expense Accrual**LO: 2****Level of Difficulty: MEDIUM**

55. Assume December 31 is a Monday. Wages are paid every Friday, and the weekly payroll (for five days) amounts to \$6,000.

To record the correct amount of expense for December, the firm makes the following entry on December 31:

- | | | |
|----------------------|-------|-------|
| A) Wages Expense | 1,200 | |
| Wages Payable | | 1,200 |
| B) Wages Payable | 1,200 | |
| Wages Expense | | 1,200 |
| C) Wages Expense | 6,000 | |
| Wages Payable | | 6,000 |
| D) Wages Expense | 4,800 | |
| Wages Payable | | 4,800 |
| E) None of the above | | |

Answer: A

Rationale: Accrue $1/5 \times \$6,000 = \$1,200$ of Wages Expense

Topic: Prepaid Expense Adjusting Entries**LO: 2****Level of Difficulty: MEDIUM**

56. During the current accounting period, Bentley Company paid \$1,000 for advertising services in advance of receiving them. Prepaid Advertising was debited and Cash was credited for \$1,000. At the end of the accounting period, three-fourths of the services paid for had yet to be received.

The proper adjusting entry is:

- | | | |
|------------------------|-----|-----|
| A) Prepaid Advertising | 750 | |
| Advertising Expense | | 750 |
| B) Advertising Expense | 250 | |
| Prepaid Advertising | | 250 |
| C) Prepaid Advertising | 250 | |
| Advertising Expense | | 250 |
| D) Advertising Expense | 500 | |
| Prepaid Advertising | | 500 |
| E) None of the above | | |

Answer: B

Rationale: Transfer $1/4 \times \$1,000 = \250 from Prepaid Advertising to Advertising Expense

Topic: Prepaid Expense Adjusting Entries**LO: 2****Level of Difficulty: MEDIUM**

57. During the current accounting period, Mulholland Company paid \$1,000 for advertising services in advance of receiving them. Prepaid Advertising was debited and Cash was credited for \$1,000. At the end of the accounting period, three-fourths of the services paid for had been received.

The proper adjusting entry is:

- | | | |
|------------------------|-----|-----|
| A) Advertising Expense | 250 | |
| Prepaid Advertising | | 250 |
| B) Prepaid Advertising | 750 | |
| Advertising Expense | | 750 |
| C) Prepaid Advertising | 250 | |
| Advertising Expense | | 250 |
| D) Advertising Expense | 750 | |
| Prepaid Advertising | | 750 |
| E) None of the above | | |

Answer: D

Rationale: Transfer $3/4 \times \$1,000 = \750 from Prepaid Advertising to Advertising Expense

Topic: Revenue Adjusting Entries

LO: 2

Level of Difficulty: MEDIUM

58. At the end of the accounting period, the Service Fees Earned account has a normal balance of \$76,000. The accountant makes two adjustments--one to accrue unbilled service fees of \$6,000, and the other to reduce the Unearned Service Fees liability account by \$900.

After the adjustments are posted, the Service Fees Earned account has a balance of:

- A) \$75,400
- B) \$82,900
- C) \$79,900
- D) \$72,100
- E) None of the above

Answer: B

Rationale: \$76,000 + \$6,000 + \$900 = \$82,900

Topic: Revenue Adjusting Entries

LO: 2

Level of Difficulty: MEDIUM

59. At the end of the accounting period, the Legal Fees Earned account has a normal balance of \$75,000. The accountant makes two adjustments--one to accrue unbilled legal fees earned of \$2,500, and the other to reduce the Unearned Legal Fees liability account by \$500.

After the adjustments are posted, the Legal Fees Earned account has a balance of

- A) \$77,500
- B) \$78,000
- C) \$81,500
- D) \$82,500
- E) None of the above

Answer: B

Rationale: \$75,000 + \$2,500 + \$500 = \$78,000

Topic: Adjusting Entry Errors

LO: 2

Level of Difficulty: MEDIUM

60. In preparing its adjusting entries at the end of this year, Johns Company neglected to adjust the Prepaid Insurance account for the amount of insurance expired during the year.

This error:

- A) Understates this year's net income and overstates both retained earnings and assets at year-end
- B) Overstates this year's net income and understates both retained earnings and assets at year-end
- C) Understates this year's net income and understates both retained earnings and assets at year-end
- D) Overstates this year's net income and overstates both retained earnings and assets at year-end
- E) None of the above

Answer: D

Topic: Adjusting Entry Errors

LO: 2

Level of Difficulty: MEDIUM

61. In preparing its adjusting entries at the end of this year, Filiberto Company neglected to adjust the Unearned Service Fees account for the amount of such fees earned during the year.

This error

- A) Understates this year's net income and retained earnings at year-end and overstates liabilities at year-end
- B) Overstates this year's net income and retained earnings at year-end and understates liabilities at year-end
- C) Understates this year's net income and understates both retained earnings and liabilities at year-end
- D) Overstates this year's net income and overstates both retained earnings and liabilities at year-end
- E) None of the above

Answer: A

Topic: Deferral Adjusting Entries

LO: 2

Level of Difficulty: EASY

62. Which of the following adjustments is an example of a deferral?

- A) The recording of wages earned by employees but not yet paid
- B) The recording of periodic depreciation expense on equipment
- C) The recording of fees earned but not yet billed or received
- D) The recording of interest income earned but not yet received
- E) None of the above

Answer: B

Topic: Accrual Adjusting Entries

LO: 2

Level of Difficulty: EASY

63. Which of the following adjustments is an example of an accrual?

- A) The recording of wages earned by employees but not yet paid
- B) The recording of periodic depreciation expense on equipment
- C) The recording of service fees earned that had been received in cash at an earlier time
- D) The recording of supplies expense for the period
- E) None of the above

Answer: A

Topic: Adjusting Entries

LO: 2, 3

Level of Difficulty: MEDIUM

64. On April 1, Smith & Johnson paid \$30,000 for rent on warehouse space one year in advance. If Smith & Johnson makes the appropriate adjusting entry, how much will be reported on the December 31 balance sheet as prepaid rent?

- A) \$22,500
- B) \$30,000
- C) \$ 0
- D) \$ 7,500

Answer: D

Rationale: Prepaid rent remaining = $\$30,000 \times 3/12 = \$7,500$

Topic: Adjusting Entries

LO: 2, 3

Level of Difficulty: MEDIUM

65. On October 1, Tanaka entered into a lease agreement to rent out its old warehouse space it was no longer using. This agreement calls for Tanaka to receive \$3,000 per month from the lessee, due and payable at the end of the 4-month lease term. At December 31, the rental payments from the lessee had yet been received.

If Tanaka makes the appropriate adjusting entry, how much will be reported on the December 31 balance sheet as rent receivable?

- A) \$2,000
- B) \$8,000
- C) \$4,000
- D) \$9,000

Answer: D

Rationale: Rent receivable = $\$3,000 \times 3 = \$9,000$

Topic: Adjusting Entries

LO: 2, 3

Level of Difficulty: MEDIUM

66. Mrs. Beard's Bagels has 6 employees who are paid \$12 per hour. At December 31, each of Mrs. Beard's employees had worked 18 hours which had not been paid or recorded. Prior to adjustments, the company's trial balance showed \$85,700 in the wages expense account.

If Mrs. Beard makes the appropriate adjusting entry, how much will be reported on the December 31 income statement as wage expense?

- A) \$85,700
- B) \$84,404
- C) \$ 1,296
- D) \$86,996

Answer: D

Rationale: Wage expense = 18 hours x 6 employees x \$12 = \$1,296 + \$85,700 = \$86,996

Topic: Permanent Accounts

LO: 4

Level of Difficulty: EASY

67. Which of the following is a permanent account category?

- A) Revenues
- B) Dividends
- C) Expenses
- D) Liabilities
- E) None of the above

Answer: D

Topic: Temporary Accounts

LO: 4

Level of Difficulty: EASY

68. Which of the following is a temporary account category?

- A) Assets
- B) Expenses
- C) Liabilities
- D) Common stock
- E) None of the above

Answer: B

Topic: Closing Entries Using Retained Earnings

LO: 4

Level of Difficulty: MEDIUM

69. Graham Corporation has the following normal account balances in its general ledger at the end of a period:

Sales revenue	\$300,000
Advertising expense	45,000

Which of the following gives the correct entry required to close only the accounts above?

- A) Advertising Expense 45,000
 Retained Earnings 255,000
 Sales Revenue 300,000
- B) Sales Revenue 300,000
 Advertising Expense 45,000
 Retained Earnings 255,000
- C) Retained Earnings 255,000
 Net Income 255,000
- D) None of the above. These accounts are not closed.

Answer: B

Rationale: The closing process requires that revenue accounts are debited and retained earnings are credited for the amount equal to the revenue balance. The closing process also requires that expense accounts are credited and retained earnings debited for an amount equal to the expense balance. The net amount of retained earnings credited in this problem is equal to \$255,000 (or \$300,000 – \$45,000), since revenues are greater than expenses.

Topic: Post-Closing Trial Balance

LO: 4

Level of Difficulty: EASY

70. Which one of the following will never appear on a post-closing trial balance?

- A) Unearned revenue
- B) Retained earnings
- C) Rent expense
- D) Common stock

Answer: C

Rationale: All temporary accounts (revenues and expenses) have zero balance after closing, so only balance sheet accounts appear on the post-closing trial balance.

Topic: Closing Entries

LO: 4

Level of Difficulty: MEDIUM

71. Which of the following accounts is not affected by closing entries?

- A) Common Stock
- B) Cash Dividends
- C) Retained Earnings
- D) Service Fees Earned
- E) None of the above

Answer: A

Topic: Accounting Cycle

LO: 4

Level of Difficulty: EASY

72. A complete accounting cycle occurs once every:

- A) Week
- B) Month
- C) Quarter
- D) Fiscal year
- E) None of the above

Answer: D

Topic: Accounting Cycle

LO: 4

Level of Difficulty: EASY

73. Which of the following accounting cycle steps occurs only at the end of the accounting year?

- A) Analyze transactions from source documents
- B) Prepare financial statements
- C) Prepare a post-closing trial balance
- D) Record transactions in journals
- E) None of the above

Answer: C

Topic: Closing Process

LO: 4

Level of Difficulty: MEDIUM

74. Closing entries are:

- A) Required to bring all permanent accounts to a zero balance at the end of the accounting period
- B) Not required to be posted
- C) Required to bring all temporary accounts to a zero balance prior to starting a new accounting cycle
- D) Generally taken from the financial statements rather than from the work sheet or the accounts themselves

Answer: C

Topic: Closing Process

LO: 4

Level of Difficulty: MEDIUM

75. Which of the following statements is *incorrect*?

- A) Prepaid expense, depreciation, and unearned revenue adjusting entries involve previously recorded assets and liabilities
- B) Closing entries affect the accumulated depreciation account
- C) Adjusting entries can be used to record both accrued expenses and accrued revenues
- D) Prepaid expenses, depreciation, and unearned revenues often require adjusting entries to record the effects of the passage of time

Answer: B

Exercises

Topic: Debits and Credits

LO: 1

1. Match each of the numbered transactions of a corporation with the appropriate letters, indicating the debits and credits to be made (give the debit first). The correct answer for transaction (1) is provided.

(1)	A shareholder purchased stock.	a, f
(2)	Paid rent for the current month	
(3)	Received and immediately paid repair bill.	
(4)	Purchased equipment on account.	
(5)	Billed customers for services rendered.	
(6)	Made partial payment for equipment purchased in transaction (4).	
(7)	Collected amounts due from customers billed in transaction (5).	
(8)	Borrowed money from bank, giving a note.	
(9)	Paid cash dividends.	
(10)	Paid employees' salaries.	

Effect of Transaction

- | | |
|------------------------|---------------------|
| a. Debit an asset | g. Debit dividends |
| b. Credit an asset | h. Credit dividends |
| c. Debit a liability | i. Debit revenue |
| d. Credit a liability | j. Credit revenue |
| e. Debit common stock | k. Debit expense |
| f. Credit common stock | l. Credit expense |

Answer:

(1)	A shareholder purchased stock.	a, f
(2)	Paid rent for the current month	k, b
(3)	Received and immediately paid repair bill.	k, b
(4)	Purchased equipment on account.	a, d
(5)	Billed customers for services rendered.	a, j
(6)	Made partial payment for equipment purchased in transaction (4).	c, b
(7)	Collected amounts due from customers billed in transaction (5).	a, b
(8)	Borrowed money from bank, giving a note.	a, d
(9)	Paid cash dividends.	g, b
(10)	Paid employees' salaries.	k, b

Topic: Recording Transactions**LO: 1**

2. The following T-accounts contain numbered entries for the July transactions of RL, Inc., who opened on July 1 of this year.

Cash				Notes Payable	
(1)	30,000	9,000	(2)		5,000 (7)
(7)	5,000	4,000	(4)		
(9)	8,100	900	(6)		
		500	(8)		
Accounts Receivable				Common Stock	
(5)	10,400	8,100	(9)		30,000 (1)
Suppliers				Dividends	
(3)	2,400			(8)	500
Office Equipment				Professional Fees Earned	
(2)	9,000				10,400 (5)
Accounts Payable				Rent Expenses	
(6)	900	2,400	(3)	(4)	4,000

Give a reasonable description of each of the nine numbered transactions entered in the above accounts. Example: (1) Shareholders invested \$30,000 cash in the business.

Answer:

- (1) Provided.
- (2) Purchased office equipment for cash, \$9,000.
- (3) Purchased supplies on account, \$2,400.
- (4) Paid rent expense, \$4,000.
- (5) Billed clients \$10,400 for professional services.
- (6) Paid \$900 on accounts payable.
- (7) Borrowed \$5,000 cash, giving a note payable.
- (8) Paid \$500 cash dividends to shareholders.
- (9) Collected \$8,100 on account from clients.

LO: 1

Accounts Receivable (A)			
1/1	160,000		
4/1	2,400,200	1,506,500	9/1
12/31	?		

- What journal entry is most likely represented by \$2,400,200 in the T-account? What business event caused this?
- What journal entry is most likely represented by the \$1,506,500 in the T-account? What business event caused this?
- What is the balance of Accounts Receivable on December 31?

a.	4/1	Accounts receivable	2,400,200	
		Sales revenue		2,400,200
		<i>The company sold merchandise (or services) on account.</i>		
b.	9/1	Cash	1,506,500	
		Accounts receivable		1,506,500
		<i>The company collected cash from customers.</i>		
c.	$\$160,000 + \$2,400,200 - \$1,506,500 = \$1,053,700$			

LO: 2

In July, Sparkling Water signed a 6-month contract with Hilton Holidays to provide pool and spa cleaning services for 3 hotel sites. The contract price of \$24,000 was collected on July 1. The services will be provided evenly over the 6 months.

Required

- Prepare the entry on July 1 to record the receipt of \$24,000 cash related to the contract with Hilton Holidays.
- Prepare the adjusting entry to be made on July 31 for the contract work performed for Hilton Holidays during the month.
- Prepare the adjusting entry needed on July 31 to reflect the residential pool services performed during the month.

a.	July 1	Cash	24,000	
		Unearned Service Fees		24,000
		<i>To record cash received in advance.</i>		
b.	July 31	Unearned Service Fees	4,000	
		Service Fees Revenue		4,000
		<i>To reflect July service fees earned on contract (\$24,000 / 6 = \$4,000).</i>		
c.	July 31	Fees Receivable	1,200	
		Service Fees Revenue		1,200
		<i>To record unbilled service fees earned at July 31, 2013: 80 hours x \$15/hr</i>		

LÖ: 2

- Required

- Answer:**

- | | | | |
|----|--|--------|--------|
| a. | Prepaid Insurance | 12,000 | |
| | Cash | | 12,000 |
| b. | Insurance Expense | 1,000 | |
| | Prepaid Insurance | | 1,000 |
| | <i>\$12,000 / 24 months = \$500 per month</i> | | |
| | <i>\$500 × 2 months = \$1,000 for February and March</i> | | |

Topic: Preparing an Income Statement**LO: 3**

6. Use BVD's adjusted trial balance to prepare the company's income statement.

BVD CORPORATION Adjusted Trial Balance For Year Ending December 31, 2019		
	Debit	Credit
Cash	\$ 32,000	
Accounts receivable	14,000	
Equipment	188,000	
Accumulated depreciation		\$ 36,000
Notes payable		40,000
Common stock		65,000
Retained earnings		31,000
Sales		160,000
Rent expense	22,000	
Salaries expense	58,000	
Depreciation expense	18,000	0
Totals	<u>\$332,000</u>	<u>\$332,000</u>

Answer:

BVD CORPORATION Income Statement For Year Ending December 31, 2019	
Sales	\$160,000
Rent expense	22,000
Salaries expense	58,000
Depreciation expense	<u>18,000</u>
Net income	<u>\$ 62,000</u>

Topic: Preparing a Balance Sheet**LO: 3**

7. Use BVD's adjusted trial balance to prepare BVD's balance sheet for the current year-end.

BVD CORPORATION Adjusted Trial Balance For Year Ending December 31, 2019		
	Debit	Credit
Cash	\$ 32,000	
Accounts receivable	14,000	
Equipment	188,000	
Accumulated depreciation		\$ 36,000
Notes payable		40,000
Common stock		65,000
Retained earnings		31,000
Service fees earned		160,000
Rent expense	22,000	
Salaries expense	58,000	
Depreciation expense	18,000	0
Totals	<u>\$332,000</u>	<u>\$332,000</u>

Answer:

BVD CORPORATION Balance Sheet December 31, 2019			
Cash	\$ 32,000	Notes payable	<u>\$ 40,000</u>
Accounts receivable	14,000	Total liabilities	40,000
Equipment	188,000		
Accumulated depreciation	(36,000)	Common stock	65,000
		Retained earnings	<u>93,000</u>
Total assets	<u>\$198,000</u>	Total liabilities and equity	<u>\$198,000</u>

Topic: Closing Procedures Using Retained Earnings**LO: 4**

8. Use BVD's adjusted trial balance to prepare entries to close BVD's temporary accounts in journal entry form.

BVD CORPORATION Adjusted Trial Balance For the Year Ending December 31, 2019		
	Debit	Credit
Cash	\$ 32,000	
Accounts receivable	14,000	
Equipment	188,000	
Accumulated depreciation		\$ 36,000
Notes payable		40,000
Common stock		65,000
Retained earnings		31,000
Service fees earned		160,000
Rent expense	22,000	
Salaries expense	58,000	
Depreciation expense	18,000	0
Totals	<u>\$332,000</u>	<u>\$332,000</u>

Answer:

Service Fees Earned	160,000	
Retained Earnings		160,000
Retained Earnings	98,000	
Rent Expense		22,000
Salaries Expense		58,000
Depreciation Expense		18,000

Topic: Permanent and Temporary Accounts, Debits and Credits, and Normal Balances**LO: 4**

9. Listed below are several accounts of Moyer Catering, Inc. Indicate with an X in the proper column whether (1) the account is permanent or temporary, (2) which side of the account increases are recorded on, and (3) which side of the account represents a normal balance.

	(1)		(2)		(3)	
	<u>Permanent</u>	<u>Temporary</u>	<u>Side for Increases</u>		<u>Normal Balances</u>	
			<u>Debit</u>	<u>Credit</u>	<u>Debit</u>	<u>Credit</u>
Cash						
Catering Fees Earned						
Accounts Payable						
Dividends						
Wages Expense						
Equipment						
Common Stock						
Advertising Expense						
Supplies						

Answer:

	(1)		(2)		(3)	
	<u>Permanent</u>	<u>Temporary</u>	<u>Side for Increases</u>		<u>Normal Balances</u>	
			<u>Debit</u>	<u>Credit</u>	<u>Debit</u>	<u>Credit</u>
Cash	X		X		X	
Catering Fees Earned		X		X		X
Accounts Payable	X			X		X
Dividends		X	X		X	
Wages Expense		X	X		X	
Equipment	X		X		X	
Common Stock	X			X		X
Advertising Expense		X	X		X	
Supplies	X		X		X	

Topic: Closing Process Using Retained Earnings**LO: 4**

10. What are the three major steps in the closing process? Why is the closing process necessary?

Answer:

The first step is to close revenues to retained earnings. The second step is to close expenses to retained earnings. The third step is to close dividends to retained earnings. The closing process has two purposes: 1) to transfer temporary balances to the permanent accounts and 2) to ready the accounts for the next accounting period.

Problems

Topic: Recording Transactions

LO: 1

1. Make T accounts for the following general ledger accounts of Mast Printers, Inc., which began business on January 1: Cash; Accounts Receivable; Supplies; Equipment; Accounts Payable; Notes Payable; Common Stock; Dividends; Printing Fees Earned; Salaries Expense; Rent Expense; and Utilities Expense. Record the following January transactions in the accounts and key each entry with the transaction number.

- (1) Shareholders purchased \$90,000 in stock.
- (2) Paid rent for the month, \$1,100.
- (3) Purchased equipment for \$30,000, giving a note payable for \$30,000.
- (4) Purchased supplies on account, \$5,000.
- (5) Billed clients for services rendered, \$19,000.
- (6) Paid salaries for the month, \$7,800.
- (7) Paid \$4,000 on account for supplies purchased in transaction (4).
- (8) Collected \$8,700 from clients previously billed.
- (9) Paid utilities for the month, \$490.
- (10) Paid \$5,800 cash dividends.

Answer:

Cash				Common Stock			
(1)	90,000	1,100	(2)		90,000	(1)	
(8)	8,700	7,800	(6)				
		4,000	(7)				
		490	(9)				
		5,800	(10)				
Accounts Receivable				Dividends			
(5)	19,000	8,700	(8)	(10)	5,800		
Supplies				Printing Fees Earned			
(4)	5,000				19,000	(5)	
Equipment				Salary Expense			
(3)	30,000			(6)	7,800		
Accounts Payable				Rent Expenses			
(7)	4,000	5,000	(4)	(2)	1,100		
Notes Payable				Utilities Expenses			
		30,000	(3)	(9)	490		

Topic: Journal Entries**LO: 1**

2. United Delivery, Inc. has the following accounts (among others) in its general ledger: Cash; Accounts Receivable; Prepaid Rent; Supplies; Delivery Equipment; Accounts Payable; Unearned Delivery Fees; Common Stock; Dividends; Delivery Fees Earned; Rent Expense; and Salaries Expense. Prepare general journal entries to record the following transactions:

- June 1 Shareholders contributed \$30,000 cash and a delivery truck worth \$17,000 in exchange for stock.
 2 Paid \$6,000 as rent for June, July, and August.
 3 Purchased supplies on account, \$2,800.
 9 Billed customers for deliveries made, \$3,100.
 14 Received \$1,000 cash from a customer as advance payment for deliveries scheduled throughout July.
 17 Paid \$1,500 on account to suppliers.
 20 Collected \$2,300 on account from customers.
 29 Paid \$750 cash dividends to shareholders
 30 Paid salaries for June, \$2,000.

Answer:

June 1	Cash	30,000	
	Delivery Equipment	17,000	
	Common Stock		47,000
	<i>Contributed cash and delivery truck in exchange for stock.</i>		
2	Prepaid Rent	6,000	
	Cash		6,000
	<i>Paid rent for June, July, and August.</i>		
3	Supplies	2,800	
	Accounts Payable		2,800
	<i>Purchased supplies on account.</i>		
9	Accounts Receivable	3,100	
	Delivery Fees Earned		3,100
	<i>Billed customers for deliveries made.</i>		
14	Cash	1,000	
	Unearned Delivery Fees		1,000
	<i>Received advance payment from customer.</i>		
17	Accounts Payable	1,500	
	Cash		1,500
	<i>Paid suppliers on account.</i>		
20	Cash	2,300	
	Accounts Receivable		2,300
	<i>Received payments from customers on account.</i>		
29	Dividends	750	
	Cash		750
	<i>Paid cash dividends.</i>		
30	Salaries Expense	2,000	
	Cash		2,000
	<i>Paid salaries for June.</i>		

Topic: Journal Entries**LO: 1**

3. Best Graphics has the following accounts in its general ledger: Cash; Accounts Receivable; Supplies; Office Equipment; Accounts Payable; Common Stock; Dividends; Service Fees Earned; Rent Expense; and Salaries Expense. Prepare general journal entries to record the following transactions:

- May 1 Shareholders invested \$110,000 cash in exchange for stock.
 2 Paid May rent, \$5,300.
 4 Purchased office equipment for \$9,000, paying \$3,000 cash, with the balance due on account in 60 days.
 5 Purchased supplies on account, \$2,300.
 12 Billed clients for services, \$5,800.
 18 Collected \$3,800 on account from clients.
 19 Paid \$1,500 on account to suppliers.
 26 Paid \$9,000 cash dividends.
 31 Paid salaries for May, \$3,200.

Answer:

May 1	Cash	110,000	
	Common Stock		110,000
	<i>Cash received for stock.</i>		
2	Rent Expense	5,300	
	Cash		5,300
	<i>Paid May rent.</i>		
4	Office Equipment	9,000	
	Cash		3,000
	Accounts Payable		6,000
	<i>Purchased office equipment for \$9,000.</i>		
	<i>Terms: \$3,000 down, remainder due in 60 days.</i>		
5	Supplies	2,300	
	Accounts Payable		2,300
	<i>Purchased supplies on account.</i>		
12	Accounts Receivable	5,800	
	Service Fees Earned		5,800
	<i>Billed clients for services.</i>		
18	Cash	3,800	
	Accounts Receivable		3,800
	<i>Received payments from clients on account.</i>		
19	Accounts Payable	1,500	
	Cash		1,500
	<i>Paid suppliers on account.</i>		
26	Cash Dividends	9,000	
	Cash		9,000
	<i>Paid cash dividends.</i>		
31	Salaries Expense	3,200	
	Cash		3,200
	<i>Paid salaries for May.</i>		

Topic: Trial Balance**LO: 1**

4. The following accounts, in alphabetical order, are from the general ledger of Brown's Counseling Service, Inc. at January 31, 2019. The firm's accounting year began on January 1. All accounts have normal balances.

Accounts payable	\$ 3,450	Insurance expense	\$ 560
Accounts receivable	18,200	Rent expense	850
Advertising expense	840	Salaries expense	5,400
Common stock	26,600	Service fees earned	19,150
Dividends	2,700	Supplies expense	480
Cash	8,500	Supplies inventory	1,560
Equipment	9,540	Utilities expense	570

Prepare a trial balance at January 31, 2019, from the given data.

Answer:

BROWN'S COUNSELING SERVICE, INC. Trial Balance January 31, 2019		
	Debit	Credit
Cash	\$ 8,500	
Accounts receivable	18,200	
Supplies inventory	1,560	
Equipment	9,540	
Accounts payable		\$ 3,450
Common stock		26,600
Dividends	2,700	
Service fees earned		19,150
Advertising expense	840	
Insurance expense	560	
Rent expense	850	
Salaries expense	5,400	
Supplies expense	480	
Utilities expense	570	
	<u>\$49,200</u>	<u>\$49,200</u>

Topic: Adjusting Entries**LO: 2**

5. Video, Inc., had the following separate situations occur during the year. The company's accountant is preparing the annual financial statements at December 31 and has asked you to prepare the adjusting entries for each situation using the journal entry form.
- a. On June 1, Video, Inc. paid the annual lease amount on its warehouse space. The annual lease is \$6,600 and was recorded by debiting Prepaid Rent and crediting Cash. No adjusting entries have been prepared since June 1.
 - b. The Unearned Revenue account has an unadjusted balance of \$4,000 consisting of gift cards sold to customers. Redeemed gift cards that have not yet been recorded total \$1,200.
 - c. The company has not yet received a bill for utilities nor paid for the month of December. The expense is estimated to be \$840.
 - d. On December 1, Video, Inc., received \$1,500 cash from a customer related to a special order. The special order was delivered to the customer on December 29 but no entry has been made to record the delivery.
 - e. At December 31, employee wages of \$2,300 have been incurred but not paid or recorded.
 - f. At December 31, \$440 of interest has been incurred, but not yet paid or recorded.
 - g. Unrecorded depreciation on equipment is \$2,800.

Answer:

a	Rent Expense	3,850	
.	Prepaid Rent		3,850
	<i>To record rent expense for the period ($\\$6,600 \times 7/12 = \\$3,850$).</i>		
b	Unearned Revenue	1,200	
.	Sales Revenue		1,200
	<i>To record redeemed gift cards.</i>		
c.	Utilities Expense	840	
	Utilities Payable		840
	<i>To record accrued utilities expense.</i>		
d	Unearned Revenue	1,500	
.	Sales Revenue		1,500
	<i>To record revenue earned.</i>		
e	Wages Expense	2,300	
.	Wages Payable		2,300
	<i>To record accrued wages at the end of the year.</i>		
f.	Interest Expense	440	
	Interest Payable		440
	<i>To record accrued interest at the end of the period.</i>		
g	Depreciation Expense-Equipment	2,800	

Accumulated Depreciation-Equipment	2,800
<i>To record depreciation for the period.</i>	

Topic: Financial Analysis Using Adjusted Data**LO: 2**

6. Selected T-account balances for Smith & Johnson are shown below as of January 31. Adjusting entries have already been posted. The firm uses a calendar-year accounting period but prepares monthly adjustments.

Supplies			Supplies Expense		
Jan 31 Bal.	1,100		Jan 31 Bal.	2,600	
Prepaid Insurance			Insurance Expense		
Jan 31 Bal.	1,260		Jan 31 Bal.	180	
Wages Payable			Wages Expense		
		1,600 Jan 31 Bal.	Jan 31 Bal.	26,400	
Truck			Accumulated Depreciation—Truck		
Jan 31 Bal.	22,200			4,810 Jan 31 Bal.	

Required

- During January, \$2,000 worth of supplies were purchased. If the amount in Supplies Expense represents the January 31 adjustment for the supplies used in January, what was the January 1 beginning balance of Supplies?
- The insurance premium purchased was valid for one year. The amount in the Insurance Expense account represents the adjustment made at January 31 for January insurance expense. What was the amount of the premium and on what date did the insurance policy start?
- No beginning balance existed in Wages Payable or Wages Expense on January 1. How much cash was paid as wages during January?
- The truck has a useful life of five years, what is the monthly amount of depreciation expense and how many months has Smith & Johnson owned the truck?

Answer:

- Balance, January 1 = $\$1,100 - \$2,000 + \$2,600 = \$1,700$
- Amount of premium = $\$180 \times 12 = \$2,160$. Therefore, five months' premium ($\$2,160 - \$1,260 = \$900$) has expired by January 31. The policy term began on September 1 of the previous year.
- Wages paid in January = $\$26,400 - \$1,600 = \$24,800$
- Monthly depreciation expense = $\$22,200 / 60 \text{ months} = \370 per month
Smith & Johnson has owned the truck for 13 months ($\$4,810 / \$370 = 13 \text{ months}$).

Topic: Preparing Adjusting Entries

LO: 2

7. JT's Grill, an upscale restaurant on the beach, has just completed its first full year of operations on December 31, 2019. It provides meals both in its restaurant and catering. Selected balances from its general ledger before year-end adjustments follow. (All balances are normal.)

Cash	\$32,000	Accounts payable	\$21,200
	0		0
Accounts receivable	18,000	Common stock	12,000
Prepaid advertising	2,400	Sales revenue	98,000
Supplies	1,800	Wages expense	54,000
Equipment	45,600	Rent expense	6,000
Notes payable	17,000	Utilities expense	2,750

An analysis of the firm's records reveals the following:

- The balance in Prepaid Advertising represents the amount paid for newspaper advertising for one year. The agreement, which calls for the same amount of space each month, covers the period from February 1, 2019, to January 31, 2020. JT's Grill did not advertise during its first month of operations.
- Equipment purchased January 1, 2019, has an estimated life of eight years.
- Utilities expense does not include the expense for December, estimated at \$600. The bill will not arrive until January, 2020.
- At year-end, employees have earned \$6,200 in wages that will not be paid until January.
- Supplies available at year-end amounted to \$650.
- At year-end, unpaid interest of \$200 has accrued on the notes payable.
- The firm's lease calls for rent of \$500 per month payable on the first of each month, plus an amount equal to 1% of annual sales. The rental percentage is payable within 15 days after the end of the year.

Prepare adjusting entries in journal entry form.

Answer:

		<u>Debit</u>	<u>Credit</u>
Dec. 31	Advertising Expense	2,200	
	Prepaid Advertising		2,200
	<i>To record 11 months' advertising expense</i>		
	<i>(\$2,400 x 11/12 = \$2,200).</i>		
31	Depreciation Expense	5,700	
	Accumulated Depreciation		5,700
	<i>To record depreciation for the year</i>		
	<i>(\$45,600/8 years = \$5,700).</i>		
31	Utilities Expense	600	
	Utilities Payable		600
	<i>To record estimated December utilities expense.</i>		
31	Wages Expense	6,200	
	Wages Payable		6,200
	<i>To record unpaid wages at December 31.</i>		

Continued

		<u>Debit</u>	<u>Credit</u>
Dec. 31	Supplies Expense	1,150	
	Supplies		1,150
	<i>To record supplies expense for the year</i> <i>(\$1,800 - \$650 = \$1,150).</i>		
31	Interest Expense	200	
	Interest Payable		200
	<i>To record accrual of interest expense at December 31.</i>		
31	Rent Expense	980	
	Rent Payable		980
	<i>To record additional rent owed under lease</i> <i>(1% × \$98,000 = \$980).</i>		

Topic: Journal Entries

LO: 2

8. Selected general ledger accounts of B&T Company, Inc., are listed below with the identifying account numbers:

11	Cash	22	Wages Payable
12	Accounts Receivable	31	Common Stock
14	Prepaid Insurance	41	Service Fees Earned
15	Equipment	51	Wages Expense
16	Accumulated Depreciation -- Equipment	52	Insurance Expense
21	Accounts Payable	53	Depreciation Expense—Equipment

For each of the following transactions or adjustments, indicate the proper accounts to be debited and credited by placing the appropriate account number in the space provided.

	<u>Transaction or Adjustment</u>	<u>Debit</u>	<u>Credit</u>
a.	Shareholders invested cash in exchange for stock.		
b.	Purchased equipment on account.		
c.	Billed customers for services rendered.		
d.	Paid balance due on account for equipment purchased.		
e.	Collected payments on account from customers.		
f.	Made adjustment to record depreciation on equipment.		
g.	Made adjustment to accrue wages earned but not paid or recorded.		
h.	Made adjustment to record portion of prepaid insurance that had expired.		

Answer:

	<u>Transaction or Adjustment</u>	<u>Debit</u>	<u>Credit</u>
a.	Shareholders invested cash in exchange for stock.	11	31
b.	Purchased equipment on account.	15	21
c.	Billed customers for services rendered.	12	41
d.	Paid balance due on account for equipment purchased.	21	11
e.	Collected payments on account from customers.	11	12
f.	Made adjustment to record depreciation on equipment.	53	16
g.	Made adjustment to accrue wages earned but not paid or recorded.	51	22
h.	Made adjustment to record portion of prepaid insurance that had expired.	52	14

Topic: Preparing Closing Entries and Post-Closing Trial Balance Closing to Retained Earnings**LO: 4**

9. Kitty Condos provides pet grooming and boarding services for domestic cats. The company has been in existence for 12 years. At December 31, 2019, Kitty Condo's adjusted trial balance is as follows:

KITTY CONDOS Adjusted Trial Balance December 31, 2019		
	Debit	Credit
Cash	\$ 42,400	
Accounts receivable	16,000	
Prepaid insurance	2,600	
Equipment	180,000	
Accumulation depreciation		\$ 42,000
Accounts payable		4,600
Common stock		101,400
Retained earnings		34,500
Service fees earned		210,000
Miscellaneous income		4,100
Salaries expense	114,000	
Rent expense	16,400	
Insurance expense	3,600	
Depreciation expense	8,400	
Income tax expense	25,600	
Income tax payable		12,400
	<u>\$409,000</u>	<u>\$409,000</u>

Required

- Prepare closing entries in journal entry form.
- After Kitty Condo's closing entries are posted, what is the balance in the Retained Earnings account?
- Prepare Kiddy Condo's post-closing trial balance.

Answer:

		<u>Debit</u>	<u>Credit</u>
a.	Dec. 31		
	Service Fees Earned	210,000	
	Miscellaneous Income	4,100	
	Retained Earnings		214,100
	<i>To close the revenue accounts.</i>		
	31		
	Retained Earnings	168,000	
	Salaries Expense		114,000
	Rent Expense		16,400
	Insurance Expense		3,600
	Depreciation Expense		8,400
	Income Tax Expense		25,600
	<i>To close the expense accounts.</i>		

b. Retained Earnings = \$34,500 + \$214,100 - \$168,000 = \$80,600

c.

KITTY CONDO Post-Closing Trial Balance December 31, 2019		
	<u>Debit</u>	<u>Credit</u>
Cash	\$ 42,400	
Accounts receivable	16,000	
Prepaid insurance	2,600	
Equipment	180,000	
Accumulation depreciation		\$ 42,000
Accounts payable		4,600
Income tax payable		12,400
Common stock		101,400
Retained earnings		<u>80,600</u>
	<u>\$241,000</u>	<u>\$241,000</u>