

Student: _____

Indicate how each event affects the elements of financial statements. Use the following letters to record your answer in the box shown below each element. You do not need to enter amounts.

Increase = I Decrease = D No Effect = N

1. Gates Co. provided services on account for customers.

Assets	Liabilities	Equity	Revenues	Expenses	Net Income	Cash Flow

2. Remsen Co. incurred \$700 of expenses on account.

Assets	Liabilities	Equity	Revenues	Expenses	Net Income	Cash Flow

3. Waller Co. collected \$1,000 cash from accounts receivable.

Assets	Liabilities	Equity	Revenues	Expenses	Net Income	Cash Flow

4. Remsen Co. paid \$200 cash on accounts payable.

Assets	Liabilities	Equity	Revenues	Expenses	Net Income	Cash Flow

5. At the end of the accounting period, Snyder Co. recognized accrued salaries payable.

Assets	Liabilities	Equity	Revenues	Expenses	Net Income	Cash Flow

6. Hico Co. received a \$5,000 cash advance for services to be provided to a customer in the future.

Assets	Liabilities	Equity	Revenues	Expenses	Net Income	Cash Flow

7. Hico Co. performed services and earned \$2,000 of a \$5,000 cash advance it had previously received from a customer.

Assets	Liabilities	Equity	Revenues	Expenses	Net Income	Cash Flow

8. Liu Co. prepaid its fire insurance for three years. The amount of cash paid for the insurance was \$21,000.

Assets	Liabilities	Equity	Revenues	Expenses	Net Income	Cash Flow

9. Liu Co. made an adjusting entry to reflect one year's expiration of insurance. Three years of insurance had been prepaid at the beginning of the year, with the entire amount being recorded as prepaid insurance. Show the effects of the adjusting entry.

Assets	Liabilities	Equity	Revenues	Expenses	Net Income	Cash Flow

10. Blankers Co. purchased \$6,000 of office supplies on account.

Assets	Liabilities	Equity	Revenues	Expenses	Net Income	Cash Flow

11. Meyer Co., in its first year of operations, purchased \$6,000 of office supplies on account. A count of office supplies at the end of the year revealed that only \$1,000 were still on hand. Show the effects of the adjusting entry that Boone should make at the end of the year.

Assets	Liabilities	Equity	Revenues	Expenses	Net Income	Cash Flow

12. On December 1, 2009, Hays Company prepaid rent for three months in the amount of \$1,500. On December 31, Hays prepared an adjusting entry to recognize \$500 of rent expense. Show the effect of the adjusting entry.

Assets	Liabilities	Equity	Revenues	Expenses	Net Income	Cash Flow

13. Dent Company received \$1,200 cash in advance for magazine subscriptions that the company agreed to send to subscribers in the future.

Assets	Liabilities	Equity	Revenues	Expenses	Net Income	Cash Flow

14. On October 1, 2009, Gruene Company received \$1,200 cash in advance for 12 months of magazine subscriptions. On December 31, 2009, Gruene made the adjusting entry showing that three months of magazines had been provided to subscribers. Show the effect of the adjustment on the financial statements.

Assets	Liabilities	Equity	Revenues	Expenses	Net Income	Cash Flow

15. What is the purpose of adjusting entries?

16. What does the account balance of Accounts Receivable represent?

17. When are revenues and expenses recognized under accrual accounting?

18. What is unearned revenue? Give an example.

19. What type of account is Unearned Revenue?

20. What type of account is Prepaid Rent?

21. Give an example of a transaction that decreases a liability and increases equity.

22. Give an example of a transaction that increases a liability and decreases equity.

23. What is a deferral?

24. When is revenue recognized under accrual accounting?

25. What is the effect on the accounting equation of a cash payment to creditors?

26. What is the effect on the accounting equation of a cash payment for an operating expense?

27. What effect does the payment to a creditor have on total assets?

28. What effect does the collection of accounts receivable have on total assets?

29. When cash is paid in advance for an insurance policy that covers the next year, how is the accounting equation affected by the cash payment for the insurance?

30. What effect does the recording of revenue normally have on total assets?
31. What type of account is Salaries Payable?
32. Each year, a company's net income is carried forward from the income statement to what other financial statement?
33. What is the purpose of the statement of cash flows?
34. What effect does providing services on account have on the statement of cash flows? The balance sheet?
35. The balance in the Office Supplies account on May 1 was \$1,500, supplies purchased during May totaled \$6,000, and the amount of supplies on hand at May 31 was \$3,600.
- a) What amount of Supplies Expense will be shown on the income statement for May?
 - b) What amount of supplies will be shown on the balance sheet at the end of May?

36. Joe's Messenger Service provided \$200 of services to customers on account. How does this transaction affect the statement of cash flows? The income statement?
37. What is "Retained Earnings?"
38. What is the purpose of the closing process?
39. Describe the difference between temporary and permanent accounts and indicate which accounts are closed.
40. Define the "accounting cycle" and list the stages of the cycle.
41. Temporary accounts are closed prior to the start of the next accounting cycle. In this closing process, the amount in each of these accounts is transferred to what account(s)?

42. Explain the meaning of the term "matching concept."
43. How does conservatism affect revenue recognition?
44. In the vertical statements model, why is it important to list the financial statements in the proper order?
45. What were the events that led Congress to pass the Sarbanes-Oxley Act of 2002?
46. What is an audit failure?
47. What were some of the major provisions of the Sarbanes-Oxley Act of 2002?

48. Describe the difference between an asset exchange transaction and a claims exchange transaction.

49. Give an example of a claims exchange transaction.

50. Osborn Company provided services to a customer on account. Which of the following represents the effect of this transaction on the financial statements?

	Assets	=	Liab.	+	Equity	Rev.	-	Exp.	=	Net Inc.	Cash Flow
A)	+	=	+	+	NA	+	-	NA	=	+	+ OA
B)	NA	=	+	+	-	+	-	NA	=	+	NA
C)	+	=	NA	+	+	+	-	NA	=	+	NA
D)	+	=	NA	+	+	+	-	NA	=	+	+OA

- A. Choice A
- B. Choice B
- C. Choice C
- D. Choice D

51. ABC Company experienced an accounting event that affected its financial statements as indicated below:

Assets	=	Liab.	+	Equity	Rev.	-	Exp.	=	Net. Inc.	Cash Flow
+		NA		+	+		NA		+	NA

Which of the following accounting events could have caused these effects on ABC's financial statements?

- A. earned revenue on account
- B. purchased equipment on account
- C. provided services to customers for cash
- D. recognized accrued salaries owed to employees

52. Which of the following transactions does not involve an accrual?

- A. recording revenue that has been earned but not yet received
- B. recording interest expense incurred but not yet paid
- C. recording salary expense incurred but not yet paid
- D. recording the pre-payment of two year's worth of insurance

53. The Redding Company recorded salaries earned by employees but not yet paid. Which of the following represents the effect of this transaction on the financial statements?

	Assets	=	Liab.	+	Equity	Rev.	-	Exp.	=	Net Inc.	Cash Flow
A)	+	=	+	+	NA	+	-	NA	=	+	- OA
B)	NA	=	+	+	-	NA	-	+	=	-	- OA
C)	-	=	NA	+	-	NA	-	+	=	-	NA
D)	NA	=	+	+	-	NA	-	+	=	-	NA

- A. Choice A
- B. Choice B
- C. Choice C
- D. Choice D

54. The term "realization" refers to which of the following?
- the closing of an account
 - the collection of cash from sale of goods or services
 - the earning of revenue
 - the correction of an error
55. Which of the following events involves an accrual?
- a cash payment received from a customer before services are provided
 - supplies purchased with cash but not yet used
 - interest earned but not received
 - A and C
56. The entry to recognize salary expense incurred but not yet paid involves which of the following?
- an increase in liabilities
 - an increase in assets
 - a decrease in assets
 - an increase in equity
57. The Greenwood Company purchased equipment costing \$900. Greenwood paid \$400 in cash and agreed to pay the remaining amount in thirty days. As a result of this transaction:
- total assets increased by \$400.
 - liabilities increased by \$500.
 - total assets increased by \$900.
 - both B and C.

58. Sefcik Company purchased supplies on account. Which of the following choices accurately reflects how this event would affect the company's financial statements?

	Assets	=	Liab.	+	Equity	Rev.	-	Exp.	=	Net Inc.	Cash Flow
A)	+	=	NA	+	-	NA	-	+	=	-	NA
B)	+ -	=	NA	+	NA	NA	-	NA	=	NA	- OA
C)	+	=	+	+	NA	NA	-	NA	=	NA	NA
D)	+ -	=	NA	+	NA	NA	-	NA	=	NA	NA

- Choice A
- Choice B
- Choice C
- Choice D

59. At the end of the accounting period, Sefcik Company made an adjusting entry for supplies consumed. Which of the following choices reflects how this event would affect the company's financial statements?

	Assets	=	Liab.	+	Equity	Rev.	-	Exp.	=	Net Inc.	Cash Flow
A)	+ -	=	NA	+	NA	NA	-	+	=	-	NA
B)	-	=	NA	+	-	NA	-	+	=	-	NA
C)	-	=	-	+	NA	NA	-	NA	=	NA	NA
D)	+ -	=	NA	+	NA	NA	-	NA	=	NA	+ IA

- Choice A
- Choice B
- Choice C
- Choice D

60. Stahl Company paid \$7,800 on May 1, 2008 for insurance coverage for a one year period beginning that date. The adjusting entry required to recognize insurance expense on December 31, 2008 would have what effect on the financial statements?

	Assets	=	Liab.	+	Equity	Rev.	-	Exp.	=	Net Inc.	Cash Flow
A)	(2,600)	=	NA	+	(2,600)	NA	-	2,600	=	(2,600)	NA
B)	(2,600)	=	NA	+	(2,600)	NA	-	2,600	=	(2,600)	(2,600) OA
C)	(5,200)	=	NA	+	(5,200)	NA	-	5,200	=	(5,200)	(5,200) OA
D)	(5,200)	=	NA	+	(5,200)	NA	-	5,200	=	(5,200)	NA

- A. Choice A
B. Choice B
C. Choice C
D. Choice D

61. Recording accrued salary expense at the end of an accounting period causes an increase in Salaries Expense and
- A. an increase in a liability.
B. a decrease in an asset.
C. an increase in an equity account.
D. none of these.
62. Which of the following transactions involves a deferral?
- A. recording the prepayment of three months rent
B. recording the interest earned (but not received) on a certificate of deposit
C. recording interest accrued on a note payable
D. recording salaries of employees earned but not yet paid
63. Which of the following does not involve a deferral?
- A. receipt of advance fees from clients
B. recording salaries of employees earned but not yet paid
C. payment of six months' rent
D. purchase of supplies on account
64. The adjustment to record the completion of services for which clients had paid in advance would involve which of the following?
- A. a decrease in assets and an increase in equity
B. a decrease in liabilities and an increase in equity
C. an increase in assets and a decrease in liabilities
D. an increase in liabilities and a decrease in equity
65. If a company purchases supplies on account, this transaction would cause
- A. total assets to decrease.
B. liabilities to increase.
C. equity to decrease.
D. Retained Earnings to increase.
66. On May 1, 2010, Perez Company paid \$12,000 rent for a one year lease on equipment it uses in its operations. The adjusting entry at the end of the year
- A. decreases assets and stockholders' equity.
B. decreases assets and liabilities
C. increases an expense and decreases a liability
D. is not required

67. The following selected account balances were drawn from the 2010 balance sheet and income statement of Fultz Company:

Cash	2,800	Common Stock	?
Accounts Receivable	750	Retained Earnings	2,600
Accounts Payable	500	Revenues	5,400
Land	600	Expenses	4,000

Based on the above information, what is the balance of Common Stock for Fultz Company?

- A. \$750
B. \$1,550
C. \$1,050
D. \$2,050
68. Dale Company purchased land costing \$2,400 by paying cash. The company earned \$2,000 revenue on account and incurred \$1,100 of operating expenses on account. As a result of these transactions:
- A. total assets increased by \$2,400.
B. liabilities increased by \$1,100.
C. total assets increased by \$5,400.
D. both A and B.
69. Bloomfield Company issued stock for \$30,000 cash on January 20, 2010. During 2010, the company recorded revenue on account of \$12,000 and expenses on account of \$5,500. Bloomfield received \$8,200 cash from accounts receivable and paid \$4,500 on the accounts payable. The company also purchased land for \$5,000 cash. The beginning cash balance was zero. Based on this information, the amount of cash at the end of the year is:
- A. \$31,500
B. \$22,974
C. \$29,100
D. \$28,700
70. Nikonowicz Enterprises experienced the following events during 2010, its first year in operation:
- The business acquired \$10,000 cash by issuing common stock to investors.
The business purchased land for \$6,000 cash.
Services were provided to customers for \$8,000 cash.
Services were provided to customers for \$3,000 on account.
Operating expenses of \$5,000 were incurred and paid in cash.
Operating expenses of \$2,000 were incurred on account.
A dividend of \$1,000 was paid to the owners of Nikonowicz Enterprises.
- Based on this information, the amount of retained earnings as of December 31, 2010, was
- A. \$1,000.
B. \$3,000.
C. \$5,000.
D. \$11,000.
71. Jaycox Company received \$1,000 cash from the issue of stock on January 1, 2010. During 2010 the Jaycox Company earned \$3,500 of revenue on account. The company collected \$2,400 cash from accounts receivable and paid \$3,000 cash for operating expenses. Based on this information alone:
- A. total assets increased by \$1,500.
B. total assets decreased by \$3,500.
C. total assets increased by \$2,400.
D. total assets did not change.

72. The following accounts and balances were drawn from the records of Schultz Company:

Cash	\$ 8,000
Accounts Payable	5,500
Common Stock	4,000
Land	18,000
Accounts Receivable	2,000

Based on this information, the amount of retained earnings was:

- A. \$ 9,500
- B. \$18,500
- C. \$15,500
- D. \$22,500

Nez Company provided services for \$7,500 cash during the 2010 accounting period. Nez incurred \$6,000 expenses on account during 2010, and by the end of the year, \$3,000 of that amount had been paid with cash. Nez paid dividends of \$900 to stockholders during the year. Assume that these are the only accounting events that affected Nez during the 2010 accounting period.

73. What was the amount of Nez's net income for 2010?

- A. \$1,500
- B. \$600
- C. \$4,500
- D. \$3,600

74. What was Nez's cash flow from operating activities for 2010?

- A. \$3,600
- B. \$1,500
- C. \$4,500
- D. \$600

For Grace Company, revenue on account amounted to \$5,000. Cash collections of accounts receivable amounted to \$2,300. Expenses incurred on account were \$2,100. Cash paid on accounts payable was \$1,950.

75. Grace's net income was:

- A. \$ 200.
- B. \$ 350.
- C. \$3,050.
- D. \$2,900.

76. Grace's cash flow from operating activities was:

- A. \$200.
- B. \$300.
- C. \$350.
- D. \$2,900.

The following accounts and balances were drawn from the records of Rayburn Company on December 31, 2009:

Cash	\$1,000	Accounts Receivable	\$850
Dividends	100	Common Stock	975
Land	800	Revenues	800
Accounts Payable	450	Expenses	550

77. Total assets on the December 31, 2009 balance sheet amounted to

- A. \$2,650.
- B. \$3,450.
- C. \$1,800.
- D. \$3,150.

78. The amount of net income shown on the December 31, 2009 income statement would amount to:
- A. \$550.
 - B. \$800.
 - C. \$ 50.
 - D. \$250.
79. Which of the following accounts would not appear on a balance sheet?
- A. Equipment
 - B. Interest Payable
 - C. Interest Revenue
 - D. Retained Earnings
80. Which of the following would be included in the "cash flows from investing activities" section of the statement of cash flows?
- A. Borrowed \$10,000 from a local bank.
 - B. Paid \$1,000 of expenses with cash.
 - C. Sold land for cash.
 - D. Issued common stock for cash.
81. Which of the following would be included in the "cash flows from financing activities" section of the statement of cash flows?
- A. Collected cash from accounts receivable.
 - B. Loaned cash to another company.
 - C. Paid cash dividend to stockholders.
 - D. Purchased insurance.
82. Recognition of revenue may result in which of the following?
- A. a decrease in assets.
 - B. an increase in assets.
 - C. an increase in liabilities.
 - D. a decrease in expenses.
83. Which of the following financial statement elements is closed at the end of an accounting cycle?
- A. Liabilities
 - B. Equity
 - C. Revenues
 - D. Assets
84. Which of the following accounts would not be closed at the end of an accounting cycle?
- A. Common Stock
 - B. Revenue
 - C. Dividends
 - D. Salaries Expense
85. The matching concept refers to the "matching" of:
- A. expenses and liabilities
 - B. expenses and revenues
 - C. assets and equity
 - D. assets and liabilities
86. The result of the matching process is reported on which financial statement?
- A. Balance Sheet
 - B. Income Statement
 - C. Statement of Changes in Stockholders' Equity
 - D. Statement of Cash Flows

87. Expenses that are matched with the period in which they are incurred are frequently called:
- A. period costs.
 - B. matched expenses.
 - C. market expenses.
 - D. working costs.
88. Which of the following lists represents the correct sequence of stages in an accounting cycle?
- A. record transactions, prepare statements, adjust accounts, close temporary accounts
 - B. prepare statements, close temporary accounts, record transactions, adjust accounts
 - C. close temporary accounts, record transactions, prepare statements, adjust accounts
 - D. record transactions, adjust accounts, prepare statements, close temporary accounts
89. The purpose of the accrual basis of accounting is to:
- A. report revenue when received.
 - B. improve the matching of revenue and expense in the proper period.
 - C. report expenses when cash disbursements are made.
 - D. improve the company's earnings per share.
90. Which of the following accounts is a permanent account (an account that is not closed)?
- A. Prepaid Insurance
 - B. Service Revenue
 - C. Dividends
 - D. Rent Expense
91. Which of the following accounts is a temporary account?
- A. Prepaid Insurance
 - B. Unearned Subscriptions Revenue
 - C. Retained Earnings
 - D. Subscription Revenue
92. The conservatism principle
- A. is primarily concerned with correctly valuing a business's assets.
 - B. matches assets and liabilities.
 - C. requires accountants to choose the accounting treatment that minimizes net income.
 - D. is concerned with matching expenses with revenues.
93. Which of the following would cause net income on the accrual basis to be different than (either higher or lower than) cash provided by operating activities on the statement of cash flows?
- A. acquiring \$10,000 cash from the owners
 - B. incurring operating expenses on account
 - C. providing services to a customer for cash
 - D. purchasing land for cash
94. Harrison and Sons is a law firm. On September 1, 2010, Harrigan contracted to provide 12 months of legal services to a client. On that date, Harrigan collected a \$36,000 retainer and began providing services. How much revenue would Harrigan report from that client for the year ending December 31, 2010?
- A. \$36,000
 - B. \$12,000
 - C. \$9,000
 - D. \$15,000

The Blumer Company entered into the following transactions during 2010:

1. The company was started with \$22,000 of common stock issued to investors for cash.
2. On July 1, the company purchased land that cost \$15,500 cash.
3. There were \$700 of supplies purchased on account.
4. Sales on account amounted to \$9,500.
5. Cash collections of receivables were \$5,500.
6. On October 1, 2010, the company paid \$3,600 in advance for a 12-month insurance policy that became effective on October 1.
7. Supplies on hand as of December 31, 2010 amounted to \$225.

95. The adjusting entry necessary to record the supplies expense would result in a:
- A. \$700 increase in assets and liabilities.
 - B. \$700 decrease in assets and equity.
 - C. \$475 decrease in assets and equity.
 - D. \$475 increase in assets and liabilities.
96. The amount of insurance expense reported on the income statement for 2010 would be:
- A. \$900.
 - B. \$2,400.
 - C. \$300.
 - D. \$600.
97. The amount of cash flow from operating activities would be:
- A. \$1,900.
 - B. \$8,400.
 - C. \$3,100.
 - D. \$5,400.
98. The amount of total liabilities appearing on the December 31, 2010 balance sheet would be:
- A. \$3,600.
 - B. \$4,000.
 - C. \$475.
 - D. \$700.

LeMars Company signed a three year contract to perform consulting services for a local manufacturer on September 1, 2009. LeMars received \$48,000 cash as an advance payment for these services and agreed the work would begin immediately.

99. The amounts of revenue that would appear on the 2009 and 2010 income statements would be:
- A. \$16,000 / \$16,000.
 - B. \$48,000 / \$ -0-.
 - C. \$5,333 / \$16,000.
 - D. \$ 5,833/ \$29,187.
100. The amounts of cash flow that would be on the 2009 and 2010 statements of cash flows would be:
- A. \$16,000 / \$16,000.
 - B. \$ -0- / \$48,000.
 - C. \$11,667 / \$11,667.
 - D. \$48,000 / \$ -0-
101. Jones Company started the accounting period with \$500 in supplies. During the period the company purchased \$1,100 of supplies on account. At the end of the accounting period there were \$700 of supplies on hand. Based on this information, the amount of supplies expense appearing on the end-of-period income statement would be
- A. \$1,600.
 - B. \$1,100.
 - C. \$ 900.
 - D. \$ 400.

102. The Sarbanes-Oxley Act
- A. was prompted by corporate bankruptcies and audit failures.
 - B. limits an auditor's ability to provide non-audit services to a client.
 - C. clarifies the responsibility of a company's management for its financial statements.
 - D. all of these.
103. Which of the following statements about the Public Company Accounting Oversight Board (PCAOB) is not true?
- A. The PCAOB was created by the Sarbanes-Oxley Act to regulate the accounting firms that audit financial statements of public companies.
 - B. The PCAOB requires public accounting firms to conduct peer reviews of other such firms.
 - C. Independent auditors are required to register with the PCAOB.
 - D. The PCAOB has the power to impose sanctions against a registered accounting firm.
104. An element that is often present when fraud occurs is
- A. The availability of an opportunity.
 - B. The existence of some form of pressure.
 - C. The ability to rationalize.
 - D. All of these.
105. Which of the following is an asset source transaction?
- A. Purchased machine by issuing a note payable
 - B. Paid a cash dividend to stockholders
 - C. Purchased equipment for cash
 - D. Collected cash from an account receivable
106. Which of the following is an asset exchange transaction?
- A. Borrowed cash from a local bank.
 - B. Incurred expenses on account.
 - C. Recognized accrued salaries expense.
 - D. Paid cash to purchase land.
107. A transaction that increases cash and increases notes payable is a/an
- A. claims exchange transaction.
 - B. asset source transaction.
 - C. asset use transaction.
 - D. asset exchange transaction.
108. A transaction that decreases cash and decreases notes payable is a/an
- A. claims exchange transaction.
 - B. asset source transaction.
 - C. asset use transaction.
 - D. asset exchange transaction.
109. The recognition of an expense may be accompanied by which of the following?
- A. an increase in assets
 - B. a decrease in liabilities
 - C. a decrease in revenue
 - D. an increase in liabilities

110. Which of the following could describe the effects of a claims exchange transaction on a company's financial statements?

	Balance Sheet					Income Statement					Statement of Cash Flows
	Assets	=	Liab.	+	Equity	Rev.	-	Exp.	=	Net Inc.	
A)	NA	=	NA	+	NA	NA	-	NA	=	NA	+ OA
B)	+	=	+	+	NA	NA	-	NA	=	NA	+ OA
C)	NA	=	+	+	-	NA	-	+	=	-	NA
D)	All of the above could represent the effects of claims exchange transactions.										

- A. Choice A
- B. Choice B
- C. Choice C
- D. Choice D

111. Recognition of revenue may result in which of the following?

- A. a decrease in a liability
- B. an increase in a liability
- C. an increase in assets
- D. A and C

112. Which of the following is an example of a claims exchange transaction?

- A. an asset decreases and an equity account decreases.
- B. an asset increases and another asset decreases.
- C. a liability increases and an equity account decreases.
- D. a liability increases and an equity account also increases.

113. Which of the following transactions is a claims exchange transaction?

- A. Paid cash to retire notes payable.
- B. Issued common stock for cash.
- C. Purchased office equipment for cash.
- D. Made adjusting entry to recognize the portion of unearned revenue that has been earned.

114. Kelly Company uses accrual accounting. Indicate whether each of the following statements regarding Kelly's accounting system is true or false.

- _____ a) The recognition of an accounting event and the collection or payment of cash may occur in different accounting periods.
- _____ b) The cash consequence of a transaction cannot occur after its accounting recognition.
- _____ c) Recognition is an act of recording an event in the financial statements.
- _____ d) The term "accrual" refers to events that are recognized after the associated cash is paid or collected.
- _____ e) Accrual basis accounting is required by generally accepted accounting principles.

115.Regarding the relationship of revenues and expenses to assets and liabilities, state whether each of the following statements is true or false.

- ☐ a) An increase in assets may be associated with recording a revenue.
- ☐ b) An increase in liabilities may be associated with recording a revenue.
- ☐ c) Recording an expense may be associated with a decrease in liabilities.
- ☐ d) Recording an expense may be associated with a decrease in an asset.
- ☐ e) At the end of the accounting period, recording earned but unpaid salaries of employees is a claims exchange transaction.

116.Indicate whether each of the following statements about the closing process and the accounting cycle is true or false.

- ☐ a) All accounts are closed at the end of each accounting cycle.
- ☐ b) Temporary accounts are closed at the end of the accounting cycle.
- ☐ c) Revenue and expense accounts are closed to Retained Earnings.
- ☐ d) Permanent accounts, which are not closed, contain information that carries over from one year to the next.
- ☐ e) The Retained Earnings account is considered a temporary account.

117.Indicate whether each of the following statements is true or false:

- ☐ a) Closing a revenue account increases the amount of Retained Earnings.
- ☐ b) Closing an expense account causes a decrease in the amount of Retained Earnings.
- ☐ c) The only accounts that are closed at the end of each accounting period are revenues and expenses.
- ☐ d) Closing the accounts is the first step in the accounting cycle.
- ☐ e) Asset and liability accounts are not closed.

118. Indicate whether each of the following statements is true or false. On May 1, 2010, Ray Co. received an advance payment from a customer for services to be performed in the next 4 months. Recognizing the receipt of the payment would
- ☐ a) have no effect on revenues.
 - ☐ b) increase liabilities.
 - ☐ c) not affect the financial statements.
 - ☐ d) increase cash flow from operating activities.
 - ☐ e) increase equity.
119. Indicate whether each of the following statements is true or false. In December 2009, Leigh Corporation received a payment from a customer for services to be provided in January and February of 2010. Upon completion of the services, Leigh Corporation would:
- ☐ a) record nothing because the cash had been collected during the previous year.
 - ☐ b) recognize an increase in assets.
 - ☐ c) report a positive cash flow from operating activities for 2010.
 - ☐ d) recognize an increase in revenues.
 - ☐ e) recognize a decrease in liabilities.
120. Indicate whether each of the following statements is true or false. On December 31, 2009, Detroit Co. paid \$6,000 cash for insurance coverage for the year 2010.
- ☐ a) The company's 2010 statement of cash flows would not be affected by this transaction.
 - ☐ b) Retained earnings on the 2010 balance sheet would not be affected by this transaction.
 - ☐ c) Net income in 2010 would decrease due to events related to this transaction.
 - ☐ d) The 2010 cash balance would decrease when insurance expense was recognized.
 - ☐ e) Total assets in 2010 would not be affected by events related to this transaction.

121. Indicate whether each of the following statements is true or false. Canton Company's prepaid rent expired on December 31, 2010. On this day, Canton would prepare an adjusting entry that would:

- ☐ a) recognize Rent Expense.
- ☐ b) decrease Cash.
- ☐ c) recognize Rent Revenue.
- ☐ d) decrease Prepaid Rent.
- ☐ e) increase equity.

122. Regarding the accrual accounting system, indicate whether each of the following statements is true or false.

- ☐ a) Accruing salary expense at the end of an accounting period is an asset use transaction.
- ☐ b) An accrual refers to an accounting event in which the cash payment or receipt occurs before a revenue or expense is recognized.
- ☐ c) A deferral refers to an accounting event in which the cash payment or receipt occurs before revenue or expense is recognized.
- ☐ d) A deferral may involve an adjusting entry between a liability and a revenue account.
- ☐ e) If a cost produces a future benefit, it should be recorded as an asset.

123. In 2010, Spencer Co. collected cash from a customer for services performed in 2009. Indicate whether each of the following statements is true or false.

- ☐ a) The 2010 income statement is not affected by this transaction.
- ☐ b) The 2010 statement of cash flows is affected by this transaction.
- ☐ c) This transaction (collection of cash) is an asset source transaction.
- ☐ d) The revenue related to this transaction was recorded in 2009.
- ☐ e) This transaction would cause the cash flow from investing activities to increase in 2010.

124. Sonora Co. paid \$57,000 in January 2010 for employee salaries that were accrued in December 2009. Indicate whether each of the following statements about this transaction in January is true or false.
- _____ a) The 2010 income statement would not be affected because salaries expense had been recognized at the end of December.
 - _____ b) This transaction would cause cash flows from operating activities for 2010 to decrease.
 - _____ c) On the balance sheet, cash decreased and stockholders' equity decreased when the salaries were paid.
 - _____ d) The statement of changes in stockholders' equity would not be affected in 2010 because the salaries expense had been recognized in the previous year.
 - _____ e) Recording the salaries expense in 2009 was a deferral.

125. Indicate whether each of the following statements regarding the four types of transactions is true or false.
- _____ a) An asset source transaction involves an increase in assets and an increase in a corresponding claims account.
 - _____ b) An asset use transaction involves a decrease in assets and a decrease in a claims account.
 - _____ c) An asset exchange transaction involves an increase in an asset and a decrease in a claims account.
 - _____ d) An asset exchange transaction involves an increase in one asset and a decrease in another asset.
 - _____ e) A claims exchange transaction involves an increase in one claims account and a decrease in another claims account.

126. Indicate whether each of the following statements is true or false.
- _____ a) If a company pays in 2009 for office supplies that are used in 2010, the Supplies Expense should be recognized in 2009.
 - _____ b) A deferral refers to an earnings event that is recognized after cash has been paid or received.
 - _____ c) If a company provides services to a customer in 2009 and collects the cash in 2010, the revenue should be recognized on the income statement in 2009.
 - _____ d) Dee Company provided services to a customer in 2009 but the customer is not expected to pay for the services until 2010. In 2009, Dee Company should record an increase to Accounts Receivable and an increase to Revenue.
 - _____ e) Providing services to a customer on account is an asset exchange transaction.

127. The term "recognition" means to report an economic event in the financial statements.
True False

128. Companies that use accrual accounting recognize revenues and expenses at the time that cash is paid or received.
True False

129. The term "accrual" describes an earnings event that is recognized before cash is paid or received.
True False
130. Adjusting entries do not affect a business's Cash account.
True False
131. An adjusting entry to accrue salary expense is a claims exchange transaction.
True False
132. Assets are listed on the balance sheet in order of amount.
True False
133. Revenues and liabilities are temporary accounts that are closed at the end of the accounting period.
True False
134. In the closing process, the amounts in temporary accounts are moved to Retained Earnings, a permanent account.
True False
135. Immediately after closing, every temporary account has a balance of \$0.
True False
136. Accounts that are closed include expenses, dividends, and unearned revenues.
True False
137. After closing, the only accounts with non-zero balances are assets, liabilities, and equity.
True False
138. Two of the steps in the accounting cycle are adjusting the accounts and closing the accounts.
True False
139. Cash-basis accounting often fails to match expenses with revenues.
True False
140. The matching concept leads accountants to select the recognition alternative that produces the lowest amount of net income.
True False
141. Businesses often recognize a revenue or expense, even though the corresponding cash collection or payment did not occur in the same accounting period.
True False
142. Significant interrelationships exist among a company's four financial statements for a given accounting period.
True False
143. An accrual may involve an adjusting entry between an expense and a liability.
True False
144. All major professional accounting organizations have adopted formal codes of professional ethics.
True False
145. The Sarbanes-Oxley Act of 2002 eased the rules governing auditors' independence.
True False
146. The Sarbanes – Oxley Act of 2002 clarified the legal responsibility of company managers for the entity's financial reports.
True False

147. A business's internal controls are policies and procedures designed to reduce opportunities for fraud.
True False
148. Corporate governance is the relationships among a business's stakeholders that determine how the business is operated.
True False
149. One of the requirements of the code of ethics of the AICPA is that members must act in a way that serves the public interest.
True False
150. A company's outside, independent auditors are responsible for preparing its financial statements.
True False
151. The Sarbanes-Oxley Act of 2002 placed limits on the ability of a company's auditor to perform other, non-audit services for the company.
True False
152. The collection of an account receivable is a claims exchange transaction.
True False
153. Providing services to customers on account is an asset source transaction.
True False
154. An adjusting entry that decreases Unearned Service Revenue and increases Service Revenue is a claims exchange transaction.
True False
155. Revenue is the economic benefit derived from operating a business.
True False
156. Often, the recognition of revenue is accompanied by an increase in liabilities.
True False
157. Classify each of the following costs as an asset or expense.
a) _____ Paid advertising for the current month.
b) _____ Used supplies to generate revenue.
c) _____ Purchased a building with cash.
d) _____ Paid two years rent in advance.

158. Treat each part of this problem as independent of the others.

- a) At January 1, 2010, the amount of accounts receivable was \$20,000. Cash collected on accounts receivable during the year was \$75,000. At December 31, 2010, the amount of accounts receivable was \$30,000. What were the revenues earned on account during 2010?
- b) At January 1, 2010, accounts payable was \$17,000. During 2010, expenses on account were \$28,000. At December 31, 2010, accounts payable was \$15,000. What was the amount of cash paid on accounts payable during 2010?
- c) At January 1, 2010, the balance in the Retained Earnings account was \$7,200. During the year, revenue earned was \$19,800 and expenses incurred were \$7,400. At December 31, 2010, the balance in the retained earnings account was \$14,200. What was the amount of cash dividends paid to stockholders during 2010?

159. The following events apply to San Antonio Company for 2010.

- 1) Issued stock for \$14,000 cash.
- 2) On May 1, paid \$6,000 for one year's rent in advance.
- 3) Purchased on account \$500 of supplies to be used in the business.
- 4) Performed services of \$8,000 and received cash from customers.
- 5) At December 31, an inventory of supplies showed that \$60 of supplies were still unused.
- 6) At December 31, adjusted the records for the expired rent.

Required: Draw an accounting equation and record the effects of the above events under the appropriate account headings. Calculate balance (ending total) for each account.

Accounting Equation

Event
No.

- 1) _____
- 2) _____
- 3) _____
- 4) _____
- 5) _____
- 6) _____

160. Using the form below, record each of the following 2010 transactions for Craig Corporation:

- a) Nov. 1. Received cash from clients for services to be performed over the next six months, \$6,000.
- b) Nov. 1. Paid \$600 for a 12-month insurance policy.
- c) Dec. 31. Recorded expiration of two months of the insurance.
- d) Dec. 31. Earned \$2,000 of the amount received from clients in November.

Assets				Liabilities			Equity	
Cash	Accts Rec.	Ppd. Ins.	Equip	=	Accts Pay	Unearned Rev	Common Stock	Retained Earnings

- a.
- b.
- c.
- d.

161. In a company's annual report, the reader will find a company's income statement, statement of changes in stockholders' equity, balance sheet, and statement of cash flows. These financial statements can help the reader to answer specific questions. Identify which financial statement would be most useful in answering the following questions. If more than one financial statement can answer the question, please identify all applicable statements.

- 1) What was the amount of cash dividends paid to the stockholders during the most recent year?
- 2) What was the total amount of land owned by the company?
- 3) What was the total amount of cash borrowed by the company during the most recent year?
- 4) What were the types of claims that the company had against its assets?
- 5) What was the total amount of cash received by the issuance of common stock in the current year?
- 6) Was the company profitable during the most recent year?
- 7) How much cash was collected from accounts receivable during the current year?
- 8) What was the total revenue earned by the company during the most recent year?
- 9) What was the ending balance of retained earnings?
- 10) What was the amount of change in the cash balance during the current year?

162. The following transactions apply to Fort Bend Corporation:

- 1) Issued common stock for \$21,000 cash
- 2) Provided services to customers for \$28,000 on account
- 3) Purchased land for \$18,000 cash
- 4) Incurred \$9,000 of operating expenses on credit
- 5) Collected \$15,000 cash from customers
- 6) Paid \$7,000 on accounts payable
- 7) Paid \$2,500 dividends to stockholders

Required:

- a) Identify the effect on the Statement of Cash Flows, if any, for each of the above transactions. Indicate whether each transaction involves operating, investing, or financing activities and the amount of increase or decrease.
- b) Classify the above accounting events into one of four types of transactions (asset source, asset use, asset exchange, claims exchange).

Event	(a) Effect on Statement of Cash Flows	(b) Transaction Type
1		
2		
3		
4		
5		
6		
7		

163. Steve Sims started a consulting business on January 1, 2010, and the business engaged in the following transactions during the year:

1. Issued \$7,000 of common stock for cash
2. Provided services on account, \$25,500
3. Incurred \$11,500 of operating expense, but only paid \$5,000 of this amount
4. Collected \$9,000 of the revenue that was previously recorded on account
5. Paid a cash dividend of \$4,000 to the stockholders

Required:

- a) Show the effects of the above transactions on the accounting equation.

Assets = Liabilities + Equity

- 1)
- 2)
- 3)
- 4)
- 5)

- b) Prepare an income statement and statement of cash flows for 2010.

164. Perez Company was founded in 2009 and engaged in the following transactions:

1. issued common stock for cash
2. purchased supplies on account
3. collected cash from a customer for services to be provided over a period of 1 year
4. paid a cash dividend to stockholders
5. purchased a 2-year fire insurance policy
6. provided services to customers on account
7. collected cash from accounts receivable
8. paid cash for various operating expenses
9. paid rent in advance for 3 months at a time

Required:

- a) For which of these transactions would adjusting entries be required at the end of the year?
- b) Explain the reason why adjusting entries are required before financial statements can be prepared.

165. Thomas Corporation began business by issuing \$2,000 of common stock on January 1, 2010. The business performed \$8,000 of service on account in 2010 and collected \$6,000 of this amount by year end. It paid operating expenses of \$4,500 and paid a \$500 dividend to stockholders.

Required:

- a) What is the amount of total assets at the end of 2010?
- b) What is the amount of cash on hand at the end of 2010?
- c) What is the net income for 2010?
- d) Prepare a balance sheet for 2010.

166. The effects of Blank Company's transactions occurring during 2010 and the related end-of-year adjustments have been recorded below using the accounting equation.

	ASSETS				LIABILITIES			EQUITY	
	Cash	+ Accts Receiv.	+ Prepaid Insurance	+ Land	= Accts Payable	+ Unearned Revenue	+ Cont. Capital +20,000	+ Retained Earnings	
1.	+20,000								
2.	-5,000			+5,000					
3.		+12,000						+12,000	
4.	+8,000					+8,000			
5.	+8,000	-8,000							
6.	-1,200		+1,200						
7.					+6,000			-6,000	
8.			-1,000					-1,000	
9.						-5,000		+5,000	
Totals	29,800	4,000	200	5,000	6,000	3,000	20,000	10,000	

Required: With your knowledge of transaction analysis and the accounting equation,

- Prepare an income statement for 2010, and
- Prepare a statement of cash flows for 2010.

167.b) Prepare an income statement, balance sheet and statement of cash flows for 2010.

Hardt Corporation began business operations and experienced the following transactions during 2010:

- 1) Issued common stock for \$10,000 cash.
- 2) Provided services to customers for \$40,000 on account.
- 3) Incurred \$18,000 of operating expenses on credit.
- 4) Collected \$23,000 cash from customers.
- 5) Paid \$15,000 on accounts payable.

Required:

- a) Record the above transactions in a horizontal financial statements model to reflect their effect on Hardt's financial statements.

[illegible]

168. Indicate for each of the following items if the item would be reported on the income statement (IS), statement of changes in equity (CE), balance sheet (BS), or statement of cash flows (CF). Some items may appear on more than one statement, if so, identify all applicable statements.

- 1) Prepaid insurance
- 2) Dividends paid to stockholders
- 3) Interest expense
- 4) Notes payable
- 5) Salaries expense
- 6) Amount of retained earnings at the end of the accounting period
- 7) Unearned subscription revenue
- 8) Cash flows from operating activities
- 9) Beginning common stock
- 10) Issued stock to investors for cash
- 11) Salaries payable
- 12) Accounts receivable

169. Classify each of the following transactions for the purpose of the statement of cash flows as operating activities (OA), investing activities (IA), financing activities (FA), or not reported on the statement of cash flows (NA).

- 1) _____ Made adjusting entry to accrue salary expense at the end of the year
- 2) _____ Borrowed funds from the bank
- 3) _____ Paid rent for the month
- 4) _____ Paid cash to settle accounts payable
- 5) _____ Issued common stock for \$30,000 cash
- 6) _____ Collected accounts receivable
- 7) _____ Paid cash to acquire land

170. Anderson Book Company shows the following transactions for the accounting period ending December 31, 2010:

- 1) Sold books to customers for \$34,000 on account
- 2) Collected \$28,000 from customers
- 3) Issued common stock for \$8,000 cash
- 4) Prepaid four months rent for \$4,400 on October 1, 2010
- 5) Purchase supplies for \$10,500 cash
- 6) Physical count shows \$3,250 of supplies left over on December 31, 2010
- 7) Recorded adjustment for prepaid rent used up

Show how the above transactions and year end adjustments affect the financial statements on the accounting equation. After entering all the transactions and adjustments, enter column totals.

	Accts.	Ppd.		=	Common	Retained
	Cash +	Rec. +	Rent +	Supplies	Stock +	Earnings
1)						
2)						
3)						
4)						
5)						
6)						
7)						

171. On October 1, 2009, Warren Company Consulting accepted \$20,000 in advance for a consulting job that should take 12 months. At December 31, the company had completed one fourth of the job.

Required:

- a) Record the effects of the above two transactions on the accounting equation.

Accounting Equation

Event No.

- 1) _____
- 2) _____

b) Answer the following questions pertaining to the above events.

- 1) What amount of revenue will appear on the 2009 income statement related to these events?
- 2) What amounts, if any, will appear on the balance sheet at December 31, 2009?
- 3) What amount, if any, will appear on the 2009 statement of cash flows? In which section would the amount appear?

172. The balance in the Prepaid Rent account at the end of the year, before adjustments, was \$18,000. This amount represented six months' rent paid on November 1, 2010.
- a) What amount, if any, of Rent Expense will be shown on the 2010 income statement?
 - b) What amount, if any, would be shown on the statement of cash flows for 2010? In which section would that amount appear?
173. On November 1, 2010, Kelly Rowan received \$2,100 in advance for services that she will perform over the next six months. Related to this transaction, list any amounts and the related accounts that will be shown on the following 2010 financial statements after adjustments.
- a) Balance Sheet
 - b) Income Statement
 - c) Statement of Cash Flows
174. On January 1, 2009, the balance in the Supplies account was \$6,000. During the year, \$13,500 of supplies were purchased for cash. After the year-end adjustments were prepared, the balance in the supplies account was \$8,300 on December 31, 2009.
- Required:
- a) What amount of Supplies Expense will be reported on the 2009 income statement?
 - b) What amount, if any will be reported on the 2009 statement of cash flows for supplies, and in what section?

175. For each of the following transactions, indicate the type by entering "AS" for asset source transaction, "AU" for asset use transaction, "AE" for asset exchange transaction, and "CE" for claims exchange transaction.

- 1) ____ The company paid \$10,000 for a plot of land.
- 2) ____ Recorded the accrual of \$1,000 in salaries to be paid later.
- 3) ____ The company issued common stock for \$20,000 in cash.
- 4) ____ The business incurred operating expense on account.
- 5) ____ The business paid off its accounts payable.
- 6) ____ The business earned revenue to be collected next year.
- 7) ____ The company paid \$2,000 in dividends to its stockholders.
- 8) ____ The business received cash from customers in #6 above.
- 9) ____ Paid the salaries accrued in #2 above.
- 10) ____ Borrowed money from a local bank.

176. Tell whether each of the following events are asset source (AS), asset use (AU), asset exchange (AE), or claims exchange (CE) transactions.

Transactions for the year 2007

- ____ 1) Issued common stock to investors for \$8,000 cash
- ____ 2) Paid one year's rent in advance
- ____ 3) Provided services to customers and received \$35,000 cash
- ____ 4) Paid creditors \$10,000
- ____ 5) Received \$3,000 of revenue in advance
- ____ 6) Provided services to customers on account, \$12,000
- ____ 7) Collected \$2,000 from accounts receivable
- ____ 8) Recognized accrued salary expense of \$2,000
- ____ 9) Borrowed \$6,000 from creditors
- ____ 10) Adjusted the records for supplies used of \$800

ch2 Key

Indicate how each event affects the elements of financial statements. Use the following letters to record your answer in the box shown below each element. You do not need to enter amounts.

Increase = I Decrease = D No Effect = N

Edmonds - Chapter 02

1. Gates Co. provided services on account for customers.

Assets	Liabilities	Equity	Revenues	Expenses	Net Income	Cash Flow

(I) (N) (I) (I) (N) (I) (N)

Difficulty: Easy
Edmonds - Chapter 02 #1
Learning Objective: 1

2. Remsen Co. incurred \$700 of expenses on account.

Assets	Liabilities	Equity	Revenues	Expenses	Net Income	Cash Flow

(N) (I) (D) (N) (I) (D) (N)

Difficulty: Easy
Edmonds - Chapter 02 #2
Learning Objective: 1

3. Waller Co. collected \$1,000 cash from accounts receivable.

Assets	Liabilities	Equity	Revenues	Expenses	Net Income	Cash Flow

(N) (N) (N) (N) (N) (N) (I)

Difficulty: Easy
Edmonds - Chapter 02 #3
Learning Objective: 1

4. Remsen Co. paid \$200 cash on accounts payable.

Assets	Liabilities	Equity	Revenues	Expenses	Net Income	Cash Flow

(D) (D) (N) (N) (N) (N) (D)

Difficulty: Easy
Edmonds - Chapter 02 #4
Learning Objective: 1

5. At the end of the accounting period, Snyder Co. recognized accrued salaries payable.

Assets	Liabilities	Equity	Revenues	Expenses	Net Income	Cash Flow

(N) (I) (D) (N) (I) (D) (N)

Difficulty: Medium
Edmonds - Chapter 02 #5
Learning Objective: 1

6. Hico Co. received a \$5,000 cash advance for services to be provided to a customer in the future.

Assets	Liabilities	Equity	Revenues	Expenses	Net Income	Cash Flow

(I) (I) (N) (N) (N) (N) (I)

Difficulty: Easy
Edmonds - Chapter 02 #6
Learning Objective: 1

7. Hico Co. performed services and earned \$2,000 of a \$5,000 cash advance it had previously received from a customer.

Assets	Liabilities	Equity	Revenues	Expenses	Net Income	Cash Flow

(N) (D) (I) (I) (N) (I) (N)

Difficulty: Medium
Edmonds - Chapter 02 #7
Learning Objective: 1

8. Liu Co. prepaid its fire insurance for three years. The amount of cash paid for the insurance was \$21,000.

Assets	Liabilities	Equity	Revenues	Expenses	Net Income	Cash Flow

(N) (N) (N) (N) (N) (N) (D)

Difficulty: Medium
Edmonds - Chapter 02 #8
Learning Objective: 1

9. Liu Co. made an adjusting entry to reflect one year's expiration of insurance. Three years of insurance had been prepaid at the beginning of the year, with the entire amount being recorded as prepaid insurance. Show the effects of the adjusting entry.

Assets	Liabilities	Equity	Revenues	Expenses	Net Income	Cash Flow

(D) (N) (D) (N) (I) (D) (N)

Difficulty: Medium
Edmonds - Chapter 02 #9
Learning Objective: 1

10. Blankers Co. purchased \$6,000 of office supplies on account.

Assets	Liabilities	Equity	Revenues	Expenses	Net Income	Cash Flow

(I) (I) (N) (N) (N) (N) (N)

Difficulty: Easy
Edmonds - Chapter 02 #10
Learning Objective: 1

11. Meyer Co., in its first year of operations, purchased \$6,000 of office supplies on account. A count of office supplies at the end of the year revealed that only \$1,000 were still on hand. Show the effects of the adjusting entry that Boone should make at the end of the year.

Assets	Liabilities	Equity	Revenues	Expenses	Net Income	Cash Flow

(D) (N) (D) (N) (I) (D) (N)

Difficulty: Medium
Edmonds - Chapter 02 #11
Learning Objective: 1

12. On December 1, 2009, Hays Company prepaid rent for three months in the amount of \$1,500. On December 31, Hays prepared an adjusting entry to recognize \$500 of rent expense. Show the effect of the adjusting entry.

Assets	Liabilities	Equity	Revenues	Expenses	Net Income	Cash Flow

(D) (N) (D) (N) (I) (D) (N)

Difficulty: Medium
Edmonds - Chapter 02 #12
Learning Objective: 1

13. Dent Company received \$1,200 cash in advance for magazine subscriptions that the company agreed to send to subscribers in the future.

Assets	Liabilities	Equity	Revenues	Expenses	Net Income	Cash Flow

(I) (I) (N) (N) (N) (N) (I)

Difficulty: Medium
Edmonds - Chapter 02 #13
Learning Objective: 1

14. On October 1, 2009, Gruene Company received \$1,200 cash in advance for 12 months of magazine subscriptions. On December 31, 2009, Gruene made the adjusting entry showing that three months of magazines had been provided to subscribers. Show the effect of the adjustment on the financial statements.

Assets	Liabilities	Equity	Revenues	Expenses	Net Income	Cash Flow

(N) (D) (I) (I) (N) (I) (N)

Difficulty: Medium
Edmonds - Chapter 02 #14
Learning Objective: 1

15. What is the purpose of adjusting entries?

An adjusting entry is an entry used to update account balances prior to the preparation of financial statements. Adjusting entries are used in applying accrual accounting.

Difficulty: Medium
Edmonds - Chapter 02 #15
Learning Objective: 1

16. What does the account balance of Accounts Receivable represent?

The amount of future cash receipts that are due from customers; the amount owed to the business by its customers.

Difficulty: Easy
Edmonds - Chapter 02 #16
Learning Objective: 1

17. When are revenues and expenses recognized under accrual accounting?

When incurred (when they occur)

Difficulty: Easy
Edmonds - Chapter 02 #17
Learning Objective: 1

18. What is unearned revenue? Give an example.

An unearned revenue is a liability created when cash has been received from a customer, but the services will be provided to customers at some future date. Example: Received \$1,800 cash in advance for services to be performed over the next six months.

Difficulty: Medium
Edmonds - Chapter 02 #18
Learning Objective: 1

19. What type of account is Unearned Revenue?

Liability

Difficulty: Easy
Edmonds - Chapter 02 #19
Learning Objective: 1

20. What type of account is Prepaid Rent?

Asset

Difficulty: Easy
Edmonds - Chapter 02 #20
Learning Objective: 1

21. Give an example of a transaction that decreases a liability and increases equity.

Performed services for customers that had paid in advance.

Difficulty: Medium
Edmonds - Chapter 02 #21
Learning Objective: 1

22. Give an example of a transaction that increases a liability and decreases equity.

Recognized accrued salaries at the end of the year.

Difficulty: Medium
Edmonds - Chapter 02 #22
Learning Objective: 1

23. What is a deferral?

A deferral is an earnings event recognized after cash has been paid or received.

*Difficulty: Medium
Edmonds - Chapter 02 #23
Learning Objective: 1*

24. When is revenue recognized under accrual accounting?

When the revenue occurs; i.e. when the services are performed

*Difficulty: Easy
Edmonds - Chapter 02 #24
Learning Objective: 1*

25. What is the effect on the accounting equation of a cash payment to creditors?

Assets decrease; liabilities decrease

*Difficulty: Medium
Edmonds - Chapter 02 #25
Learning Objective: 2*

26. What is the effect on the accounting equation of a cash payment for an operating expense?

Decrease assets and decrease equity (Retained Earnings)

*Difficulty: Medium
Edmonds - Chapter 02 #26
Learning Objective: 2*

27. What effect does the payment to a creditor have on total assets?

Decreases total assets

*Difficulty: Easy
Edmonds - Chapter 02 #27
Learning Objective: 2*

28. What effect does the collection of accounts receivable have on total assets?

No effect, it is an asset exchange

*Difficulty: Medium
Edmonds - Chapter 02 #28
Learning Objective: 2*

29. When cash is paid in advance for an insurance policy that covers the next year, how is the accounting equation affected by the cash payment for the insurance?

Increase assets (prepaid insurance) and decrease assets (cash). Total assets, liabilities, and equity are unchanged.

*Difficulty: Easy
Edmonds - Chapter 02 #29
Learning Objective: 2*

30. What effect does the recording of revenue normally have on total assets?

The recording of revenue would normally have the effect of increasing total assets (usually cash or accounts receivable).

Difficulty: Easy
Edmonds - Chapter 02 #30
Learning Objective: 2

31. What type of account is Salaries Payable?

Liability

Difficulty: Easy
Edmonds - Chapter 02 #31
Learning Objective: 2

32. Each year, a company's net income is carried forward from the income statement to what other financial statement?

Statement of Changes in Stockholders' Equity

Difficulty: Medium
Edmonds - Chapter 02 #32
Learning Objective: 3

33. What is the purpose of the statement of cash flows?

To explain the change in a business's cash from the beginning to the end of an accounting period by showing how the business obtained and spent its cash.

Difficulty: Medium
Edmonds - Chapter 02 #33
Learning Objective: 3

34. What effect does providing services on account have on the statement of cash flows? The balance sheet?

No effect on the statement of cash flows when services are performed on account. Assets and equity will increase on the balance sheet.

Difficulty: Medium
Edmonds - Chapter 02 #34
Learning Objective: 3

35. The balance in the Office Supplies account on May 1 was \$1,500, supplies purchased during May totaled \$6,000, and the amount of supplies on hand at May 31 was \$3,600.

- a) What amount of Supplies Expense will be shown on the income statement for May?
- b) What amount of supplies will be shown on the balance sheet at the end of May?

a) \$3,900 b) \$3,600

Difficulty: Medium
Edmonds - Chapter 02 #35
Learning Objective: 3

36. Joe's Messenger Service provided \$200 of services to customers on account. How does this transaction affect the statement of cash flows? The income statement?

No effect on the statement of cash flows because cash has not yet been received from the customers. Revenue will be recognized, so net income will increase by \$200.

*Difficulty: Medium
Edmonds - Chapter 02 #36
Learning Objective: 3*

37. What is "Retained Earnings?"

Net increase in assets from business operations that have been retained in the business and not distributed to owners; an equity account

*Difficulty: Medium
Edmonds - Chapter 02 #37
Learning Objective: 4*

38. What is the purpose of the closing process?

To bring the balance of the temporary accounts to zero at the end of an accounting period and to update the Retained Earnings account.

*Difficulty: Medium
Edmonds - Chapter 02 #38
Learning Objective: 4*

39. Describe the difference between temporary and permanent accounts and indicate which accounts are closed.

Temporary accounts include revenues, expenses, and dividends, and they are closed at the end of each accounting period. Permanent accounts include the balance sheet accounts (assets, liabilities, Common Stock and Retained Earnings) and their balances carry forward each year rather than being closed out.

*Difficulty: Medium
Edmonds - Chapter 02 #39
Learning Objective: 4*

40. Define the "accounting cycle" and list the stages of the cycle.

The accounting cycle is a series of steps or accounting procedures that occur repeatedly throughout the life of a business. The stages of the accounting cycle are (1) recording transactions, (2) adjusting the accounts, (3) preparing financial statements and (4) closing temporary accounts.

*Difficulty: Medium
Edmonds - Chapter 02 #40
Learning Objective: 4*

41. Temporary accounts are closed prior to the start of the next accounting cycle. In this closing process, the amount in each of these accounts is transferred to what account(s)?

Retained Earnings

*Difficulty: Easy
Edmonds - Chapter 02 #41
Learning Objective: 4*

42. Explain the meaning of the term "matching concept."

The "matching concept" refers to the process of "matching" expenses with the revenues that they produce in the appropriate time period. This matching is a primary goal of accrual accounting.

*Difficulty: Medium
Edmonds - Chapter 02 #42
Learning Objective: 4*

43. How does conservatism affect revenue recognition?

When there is uncertainty about how much revenue should be recognized, the conservatism principle guides accountants to select the alternative that produces the lowest amount of net income. Therefore, recognition of revenue may be delayed to a later accounting period. According to conservatism, it is better to understate income than to overstate it.

*Difficulty: Medium
Edmonds - Chapter 02 #43
Learning Objective: 4*

44. In the vertical statements model, why is it important to list the financial statements in the proper order?

Because information from each statement is used in the next statement. For example, net income from the income statement is used in the statement of changes in equity.

*Difficulty: Medium
Edmonds - Chapter 02 #44
Learning Objective: 5*

45. What were the events that led Congress to pass the Sarbanes-Oxley Act of 2002?

Congress passed the Sarbanes-Oxley Act a few months after the bankruptcies of Enron and WorldCom, at the time the largest bankruptcies in US history. These bankruptcies indicated weaknesses in the accounting systems for the two companies and major audit failures on the part of their independent auditors.

*Difficulty: Medium
Edmonds - Chapter 02 #45
Learning Objective: 7*

46. What is an audit failure?

An audit failure means that a company's auditor did not detect or report that the company's financial statements are not in compliance with GAAP.

*Difficulty: Medium
Edmonds - Chapter 02 #46
Learning Objective: 7*

47. What were some of the major provisions of the Sarbanes-Oxley Act of 2002?

The Act required establishment of the Public Company Accounting Oversight Board to regulate the audit profession; prohibited public accounting firms from providing certain non-audit services to their audit clients; required that a corporation's audit committee be responsible for appointment, compensation, and oversight of the auditor; and required the chief executive officer and chief financial officer to certify that the financial reports fairly present the company's financial status.

*Difficulty: Medium
Edmonds - Chapter 02 #47
Learning Objective: 7*

48. Describe the difference between an asset exchange transaction and a claims exchange transaction.

An asset exchange transaction involves one asset increasing and another asset decreasing. A claims exchange transaction involves an increase in one claim (items on the right side of the accounting equation) and a decrease in another claim. In each case, total assets and total claims are unchanged.

Difficulty: Medium
Edmonds - Chapter 02 #48
Learning Objective: 8

49. Give an example of a claims exchange transaction.

Recognized the performance of services to customers who had paid in advance.

Difficulty: Medium
Edmonds - Chapter 02 #49
Learning Objective: 8

50. Osborn Company provided services to a customer on account. Which of the following represents the effect of this transaction on the financial statements?

	Assets	=	Liab.	+	Equity	Rev.	-	Exp.	=	Net Inc.	Cash Flow
A)	+	=	+	+	NA	+	-	NA	=	+	+ OA
B)	NA	=	+	+	-	+	-	NA	=	+	NA
C)	+	=	NA	+	+	+	-	NA	=	+	NA
D)	+	=	NA	+	+	+	-	NA	=	+	+OA

- A. Choice A
B. Choice B
C. Choice C
D. Choice D

Difficulty: Medium
Edmonds - Chapter 02 #50
Learning Objective: 1

51. ABC Company experienced an accounting event that affected its financial statements as indicated below:

Assets	=	Liab.	+	Equity	Rev.	-	Exp.	=	Net. Inc.	Cash Flow
+		NA		+	+		NA		+	NA

Which of the following accounting events could have caused these effects on ABC's financial statements?

- A.** earned revenue on account
B. purchased equipment on account
C. provided services to customers for cash
D. recognized accrued salaries owed to employees

Difficulty: Medium
Edmonds - Chapter 02 #51
Learning Objective: 1

52. Which of the following transactions does not involve an accrual?

- A. recording revenue that has been earned but not yet received
B. recording interest expense incurred but not yet paid
C. recording salary expense incurred but not yet paid
D. recording the pre-payment of two year's worth of insurance

Difficulty: Medium
Edmonds - Chapter 02 #52
Learning Objective: 1

53. The Redding Company recorded salaries earned by employees but not yet paid. Which of the following represents the effect of this transaction on the financial statements?

	Assets	=	Liab.	+	Equity	Rev.	-	Exp.	=	Net Inc.	Cash Flow
A)	+	=	+	+	NA	+	-	NA	=	+	- OA
B)	NA	=	+	+	-	NA	-	+	=	-	- OA
C)	-	=	NA	+	-	NA	-	+	=	-	NA
D)	NA	=	+	+	-	NA	-	+	=	-	NA

- A. Choice A
B. Choice B
C. Choice C
D. Choice D

Difficulty: Medium
Edmonds - Chapter 02 #53
Learning Objective: 1

54. The term "realization" refers to which of the following?

- A. the closing of an account
B. the collection of cash from sale of goods or services
C. the earning of revenue
D. the correction of an error

Difficulty: Medium
Edmonds - Chapter 02 #54
Learning Objective: 1

55. Which of the following events involves an accrual?

- A. a cash payment received from a customer before services are provided
B. supplies purchased with cash but not yet used
C. interest earned but not received
D. A and C

Difficulty: Medium
Edmonds - Chapter 02 #55
Learning Objective: 1

56. The entry to recognize salary expense incurred but not yet paid involves which of the following?

- A. an increase in liabilities**
B. an increase in assets
C. a decrease in assets
D. an increase in equity

Difficulty: Medium
Edmonds - Chapter 02 #56
Learning Objective: 1

57. The Greenwood Company purchased equipment costing \$900. Greenwood paid \$400 in cash and agreed to pay the remaining amount in thirty days. As a result of this transaction:

- A. total assets increased by \$400.
B. liabilities increased by \$500.
C. total assets increased by \$900.
D. both B and C.

Difficulty: Medium
Edmonds - Chapter 02 #57
Learning Objective: 1

58. Sefcik Company purchased supplies on account. Which of the following choices accurately reflects how this event would affect the company's financial statements?

	Assets	=	Liab.	+	Equity	Rev.	-	Exp.	=	Net Inc.	Cash Flow
A)	+	=	NA	+	-	NA	-	+	=	-	NA
B)	+ -	=	NA	+	NA	NA	-	NA	=	NA	- OA
C)	+	=	+	+	NA	NA	-	NA	=	NA	NA
D)	+ -	=	NA	+	NA	NA	-	NA	=	NA	NA

- A. Choice A
B. Choice B
C. Choice C
D. Choice D

Difficulty: Medium
Edmonds - Chapter 02 #58
Learning Objective: 1

59. At the end of the accounting period, Sefcik Company made an adjusting entry for supplies consumed. Which of the following choices reflects how this event would affect the company's financial statements?

	Assets	=	Liab.	+	Equity	Rev.	-	Exp.	=	Net Inc.	Cash Flow
A)	+ -	=	NA	+	NA	NA	-	+	=	-	NA
B)	-	=	NA	+	-	NA	-	+	=	-	NA
C)	-	=	-	+	NA	NA	-	NA	=	NA	NA
D)	+ -	=	NA	+	NA	NA	-	NA	=	NA	+ IA

- A. Choice A
B. Choice B
C. Choice C
D. Choice D

Difficulty: Medium
Edmonds - Chapter 02 #59
Learning Objective: 1

60. Stahl Company paid \$7,800 on May 1, 2008 for insurance coverage for a one year period beginning that date. The adjusting entry required to recognize insurance expense on December 31, 2008 would have what effect on the financial statements?

	Assets	=	Liab.	+	Equity	Rev.	-	Exp.	=	Net Inc.	Cash Flow
A)	(2,600)	=	NA	+	(2,600)	NA	-	2,600	=	(2,600)	NA
B)	(2,600)	=	NA	+	(2,600)	NA	-	2,600	=	(2,600)	(2,600) OA
C)	(5,200)	=	NA	+	(5,200)	NA	-	5,200	=	(5,200)	(5,200) OA
D)	(5,200)	=	NA	+	(5,200)	NA	-	5,200	=	(5,200)	NA

- A. Choice A
B. Choice B
C. Choice C
D. Choice D

Difficulty: Hard
Edmonds - Chapter 02 #60
Learning Objective: 1

61. Recording accrued salary expense at the end of an accounting period causes an increase in Salaries Expense and

- A.** an increase in a liability.
B. a decrease in an asset.
C. an increase in an equity account.
D. none of these.

Difficulty: Medium
Edmonds - Chapter 02 #61
Learning Objective: 1

62. Which of the following transactions involves a deferral?
A. recording the prepayment of three months rent
 B. recording the interest earned (but not received) on a certificate of deposit
 C. recording interest accrued on a note payable
 D. recording salaries of employees earned but not yet paid

Difficulty: Medium
 Edmonds - Chapter 02 #62
 Learning Objective: 1

63. Which of the following does not involve a deferral?
 A. receipt of advance fees from clients
B. recording salaries of employees earned but not yet paid
 C. payment of six months' rent
 D. purchase of supplies on account

Difficulty: Medium
 Edmonds - Chapter 02 #63
 Learning Objective: 1

64. The adjustment to record the completion of services for which clients had paid in advance would involve which of the following?
 A. a decrease in assets and an increase in equity
B. a decrease in liabilities and an increase in equity
 C. an increase in assets and a decrease in liabilities
 D. an increase in liabilities and a decrease in equity

Difficulty: Medium
 Edmonds - Chapter 02 #64
 Learning Objective: 1

65. If a company purchases supplies on account, this transaction would cause
 A. total assets to decrease.
B. liabilities to increase.
 C. equity to decrease.
 D. Retained Earnings to increase.

Difficulty: Easy
 Edmonds - Chapter 02 #65
 Learning Objective: 2

66. On May 1, 2010, Perez Company paid \$12,000 rent for a one year lease on equipment it uses in its operations. The adjusting entry at the end of the year
A. decreases assets and stockholders' equity.
 B. decreases assets and liabilities
 C. increases an expense and decreases a liability
 D. is not required

Difficulty: Medium
 Edmonds - Chapter 02 #66
 Learning Objective: 1
 Learning Objective: 2

67. The following selected account balances were drawn from the 2010 balance sheet and income statement of Fultz Company:

Cash	2,800	Common Stock	?
Accounts Receivable	750	Retained Earnings	2,600
Accounts Payable	500	Revenues	5,400
Land	600	Expenses	4,000

Based on the above information, what is the balance of Common Stock for Fultz Company?

- A. \$750
 B. \$1,550
C. \$1,050
 D. \$2,050

Difficulty: Hard
 Edmonds - Chapter 02 #67
 Learning Objective: 2

68. Dale Company purchased land costing \$2,400 by paying cash. The company earned \$2,000 revenue on account and incurred \$1,100 of operating expenses on account. As a result of these transactions:
- A. total assets increased by \$2,400.
 - B. liabilities increased by \$1,100.**
 - C. total assets increased by \$5,400.
 - D. both A and B.

Difficulty: Medium
Edmonds - Chapter 02 #68
Learning Objective: 2

69. Bloomfield Company issued stock for \$30,000 cash on January 20, 2010. During 2010, the company recorded revenue on account of \$12,000 and expenses on account of \$5,500. Bloomfield received \$8,200 cash from accounts receivable and paid \$4,500 on the accounts payable. The company also purchased land for \$5,000 cash. The beginning cash balance was zero. Based on this information, the amount of cash at the end of the year is:
- A. \$31,500
 - B. \$22,974
 - C. \$29,100
 - D. \$28,700**

Difficulty: Medium
Edmonds - Chapter 02 #69
Learning Objective: 2

70. Nikonowicz Enterprises experienced the following events during 2010, its first year in operation:

The business acquired \$10,000 cash by issuing common stock to investors.

The business purchased land for \$6,000 cash.

Services were provided to customers for \$8,000 cash.

Services were provided to customers for \$3,000 on account.

Operating expenses of \$5,000 were incurred and paid in cash.

Operating expenses of \$2,000 were incurred on account.

A dividend of \$1,000 was paid to the owners of Nikonowicz Enterprises.

Based on this information, the amount of retained earnings as of December 31, 2010, was

- A. \$1,000.
- B. \$3,000.**
- C. \$5,000.
- D. \$11,000.

Difficulty: Medium
Edmonds - Chapter 02 #70
Learning Objective: 2

71. Jaycox Company received \$1,000 cash from the issue of stock on January 1, 2010. During 2010 the Jaycox Company earned \$3,500 of revenue on account. The company collected \$2,400 cash from accounts receivable and paid \$3,000 cash for operating expenses. Based on this information alone:
- A. total assets increased by \$1,500.**
 - B. total assets decreased by \$3,500.
 - C. total assets increased by \$2,400.
 - D. total assets did not change.

Difficulty: Medium
Edmonds - Chapter 02 #71
Learning Objective: 2

72. The following accounts and balances were drawn from the records of Schultz Company:

Cash	\$ 8,000
Accounts Payable	5,500
Common Stock	4,000
Land	18,000
Accounts Receivable	2,000

Based on this information, the amount of retained earnings was:

- A. \$ 9,500
- B. \$18,500**
- C. \$15,500
- D. \$22,500

Difficulty: Medium
Edmonds - Chapter 02 #72
Learning Objective: 2

Nez Company provided services for \$7,500 cash during the 2010 accounting period. Nez incurred \$6,000 expenses on account during 2010, and by the end of the year, \$3,000 of that amount had been paid with cash. Nez paid dividends of \$900 to stockholders during the year. Assume that these are the only accounting events that affected Nez during the 2010 accounting period.

Edmonds - Chapter 02

73. What was the amount of Nez's net income for 2010?

- A. \$1,500**
- B. \$600
- C. \$4,500
- D. \$3,600

Difficulty: Medium
Edmonds - Chapter 02 #73
Learning Objective: 3

74. What was Nez's cash flow from operating activities for 2010?

- A. \$3,600
- B. \$1,500
- C. \$4,500**
- D. \$600

Difficulty: Medium
Edmonds - Chapter 02 #74
Learning Objective: 3

For Grace Company, revenue on account amounted to \$5,000. Cash collections of accounts receivable amounted to \$2,300. Expenses incurred on account were \$2,100. Cash paid on accounts payable was \$1,950.

Edmonds - Chapter 02

75. Grace's net income was:

- A. \$ 200.
- B. \$ 350.
- C. \$3,050.
- D. \$2,900.**

Difficulty: Medium
Edmonds - Chapter 02 #75
Learning Objective: 3

76. Grace's cash flow from operating activities was:

- A. \$200.
- B. \$300.
- C. \$350.**
- D. \$2,900.

Difficulty: Medium
Edmonds - Chapter 02 #76
Learning Objective: 3

The following accounts and balances were drawn from the records of Rayburn Company on December 31, 2009:

Cash	\$1,000	Accounts Receivable	\$850
Dividends	100	Common Stock	975
Land	800	Revenues	800
Accounts Payable	450	Expenses	550

Edmonds - Chapter 02

77. Total assets on the December 31, 2009 balance sheet amounted to
A. \$2,650.
 B. \$3,450.
 C. \$1,800.
 D. \$3,150.

Difficulty: Easy
 Edmonds - Chapter 02 #77
 Learning Objective: 3

78. The amount of net income shown on the December 31, 2009 income statement would amount to:
 A. \$550.
 B. \$800.
 C. \$ 50.
D. \$250.

Difficulty: Easy
 Edmonds - Chapter 02 #78
 Learning Objective: 3

79. Which of the following accounts would not appear on a balance sheet?
 A. Equipment
 B. Interest Payable
C. Interest Revenue
 D. Retained Earnings

Difficulty: Easy
 Edmonds - Chapter 02 #79
 Learning Objective: 3

80. Which of the following would be included in the "cash flows from investing activities" section of the statement of cash flows?
 A. Borrowed \$10,000 from a local bank.
 B. Paid \$1,000 of expenses with cash.
C. Sold land for cash.
 D. Issued common stock for cash.

Difficulty: Easy
 Edmonds - Chapter 02 #80
 Learning Objective: 3

81. Which of the following would be included in the "cash flows from financing activities" section of the statement of cash flows?
 A. Collected cash from accounts receivable.
 B. Loaned cash to another company.
C. Paid cash dividend to stockholders.
 D. Purchased insurance.

Difficulty: Medium
 Edmonds - Chapter 02 #81
 Learning Objective: 3

82. Recognition of revenue may result in which of the following?
 A. a decrease in assets.
B. an increase in assets.
 C. an increase in liabilities.
 D. a decrease in expenses.

Difficulty: Medium
 Edmonds - Chapter 02 #82
 Learning Objective: 3

83. Which of the following financial statement elements is closed at the end of an accounting cycle?
- A. Liabilities
 - B. Equity
 - C. Revenues**
 - D. Assets

Difficulty: Easy
Edmonds - Chapter 02 #83
Learning Objective: 4

84. Which of the following accounts would not be closed at the end of an accounting cycle?
- A. Common Stock**
 - B. Revenue
 - C. Dividends
 - D. Salaries Expense

Difficulty: Medium
Edmonds - Chapter 02 #84
Learning Objective: 4

85. The matching concept refers to the "matching" of:
- A. expenses and liabilities
 - B. expenses and revenues**
 - C. assets and equity
 - D. assets and liabilities

Difficulty: Easy
Edmonds - Chapter 02 #85
Learning Objective: 4

86. The result of the matching process is reported on which financial statement?
- A. Balance Sheet
 - B. Income Statement**
 - C. Statement of Changes in Stockholders' Equity
 - D. Statement of Cash Flows

Difficulty: Easy
Edmonds - Chapter 02 #86
Learning Objective: 4

87. Expenses that are matched with the period in which they are incurred are frequently called:
- A. period costs.**
 - B. matched expenses.
 - C. market expenses.
 - D. working costs.

Difficulty: Medium
Edmonds - Chapter 02 #87
Learning Objective: 4

88. Which of the following lists represents the correct sequence of stages in an accounting cycle?
- A. record transactions, prepare statements, adjust accounts, close temporary accounts
 - B. prepare statements, close temporary accounts, record transactions, adjust accounts
 - C. close temporary accounts, record transactions, prepare statements, adjust accounts
 - D. record transactions, adjust accounts, prepare statements, close temporary accounts**

Difficulty: Hard
Edmonds - Chapter 02 #88
Learning Objective: 4

89. The purpose of the accrual basis of accounting is to:
- A. report revenue when received.
 - B. improve the matching of revenue and expense in the proper period.**
 - C. report expenses when cash disbursements are made.
 - D. improve the company's earnings per share.

Difficulty: Medium
Edmonds - Chapter 02 #89
Learning Objective: 4

90. Which of the following accounts is a permanent account (an account that is not closed)?
- A. Prepaid Insurance
 - B. Service Revenue
 - C. Dividends
 - D.** Rent Expense

Difficulty: Medium
Edmonds - Chapter 02 #90
Learning Objective: 4

91. Which of the following accounts is a temporary account?
- A. Prepaid Insurance
 - B. Unearned Subscriptions Revenue
 - C. Retained Earnings
 - D.** Subscription Revenue

Difficulty: Medium
Edmonds - Chapter 02 #91
Learning Objective: 4

92. The conservatism principle
- A. is primarily concerned with correctly valuing a business's assets.
 - B. matches assets and liabilities.
 - C.** requires accountants to choose the accounting treatment that minimizes net income.
 - D. is concerned with matching expenses with revenues.

Difficulty: Easy
Edmonds - Chapter 02 #92
Learning Objective: 4

93. Which of the following would cause net income on the accrual basis to be different than (either higher or lower than) cash provided by operating activities on the statement of cash flows?
- A. acquiring \$10,000 cash from the owners
 - B.** incurring operating expenses on account
 - C. providing services to a customer for cash
 - D. purchasing land for cash

Difficulty: Medium
Edmonds - Chapter 02 #93
Learning Objective: 5

94. Harrison and Sons is a law firm. On September 1, 2010, Harrigan contracted to provide 12 months of legal services to a client. On that date, Harrigan collected a \$36,000 retainer and began providing services. How much revenue would Harrigan report from that client for the year ending December 31, 2010?
- A. \$36,000
 - B.** \$12,000
 - C. \$9,000
 - D. \$15,000

Difficulty: Medium
Edmonds - Chapter 02 #94
Learning Objective: 5
Learning Objective: 6

The Blumer Company entered into the following transactions during 2010:

1. The company was started with \$22,000 of common stock issued to investors for cash.
2. On July 1, the company purchased land that cost \$15,500 cash.
3. There were \$700 of supplies purchased on account.
4. Sales on account amounted to \$9,500.
5. Cash collections of receivables were \$5,500.
6. On October 1, 2010, the company paid \$3,600 in advance for a 12-month insurance policy that became effective on October 1.
7. Supplies on hand as of December 31, 2010 amounted to \$225.

Edmonds - Chapter 02

95. The adjusting entry necessary to record the supplies expense would result in a:
- A. \$700 increase in assets and liabilities.
 - B. \$700 decrease in assets and equity.
 - C. \$475 decrease in assets and equity.**
 - D. \$475 increase in assets and liabilities.

*Difficulty: Medium
Edmonds - Chapter 02 #95
Learning Objective: 3*

96. The amount of insurance expense reported on the income statement for 2010 would be:
- A. \$900.**
 - B. \$2,400.
 - C. \$300.
 - D. \$600.

*Difficulty: Medium
Edmonds - Chapter 02 #96
Learning Objective: 3*

97. The amount of cash flow from operating activities would be:
- A. \$1,900.**
 - B. \$8,400.
 - C. \$3,100.
 - D. \$5,400.

*Difficulty: Hard
Edmonds - Chapter 02 #97
Learning Objective: 5*

98. The amount of total liabilities appearing on the December 31, 2010 balance sheet would be:
- A. \$3,600.
 - B. \$4,000.
 - C. \$475.
 - D. \$700.**

*Difficulty: Medium
Edmonds - Chapter 02 #98
Learning Objective: 3*

LeMars Company signed a three year contract to perform consulting services for a local manufacturer on September 1, 2009. LeMars received \$48,000 cash as an advance payment for these services and agreed the work would begin immediately.

Edmonds - Chapter 02

99. The amounts of revenue that would appear on the 2009 and 2010 income statements would be:
- A. \$16,000 / \$16,000.
 - B. \$48,000 / \$ -0-.
 - C. \$5,333 / \$16,000.**
 - D. \$ 5,833/ \$29,187.

*Difficulty: Hard
Edmonds - Chapter 02 #99
Learning Objective: 3
Learning Objective: 6*

100. The amounts of cash flow that would be on the 2009 and 2010 statements of cash flows would be:
- A. \$16,000 / \$16,000.
 - B. \$ -0- / \$48,000.
 - C. \$11,667 / \$11,667.
 - D. \$48,000 / \$ -0-**

*Difficulty: Medium
Edmonds - Chapter 02 #100
Learning Objective: 3
Learning Objective: 6*

101. Jones Company started the accounting period with \$500 in supplies. During the period the company purchased \$1,100 of supplies on account. At the end of the accounting period there were \$700 of supplies on hand. Based on this information, the amount of supplies expense appearing on the end-of-period income statement would be
- A. \$1,600.
 - B. \$1,100.
 - C. \$ 900.**
 - D. \$ 400.

Difficulty: Medium
Edmonds - Chapter 02 #101
Learning Objective: 6

102. The Sarbanes-Oxley Act
- A. was prompted by corporate bankruptcies and audit failures.
 - B. limits an auditor's ability to provide non-audit services to a client.
 - C. clarifies the responsibility of a company's management for its financial statements.
 - D. all of these.**

Difficulty: Easy
Edmonds - Chapter 02 #102
Learning Objective: 7

103. Which of the following statements about the Public Company Accounting Oversight Board (PCAOB) is not true?
- A The PCAOB was created by the Sarbanes-Oxley Act to regulate the accounting firms that audit financial statements of public companies.
 - B. The PCAOB requires public accounting firms to conduct peer reviews of other such firms.**
 - C. Independent auditors are required to register with the PCAOB.
 - D. The PCAOB has the power to impose sanctions against a registered accounting firm.

Difficulty: Medium
Edmonds - Chapter 02 #103
Learning Objective: 7

104. An element that is often present when fraud occurs is
- A. The availability of an opportunity.
 - B. The existence of some form of pressure.
 - C. The ability to rationalize.
 - D. All of these.**

Difficulty: Easy
Edmonds - Chapter 02 #104
Learning Objective: 7

105. Which of the following is an asset source transaction?
- A. Purchased machine by issuing a note payable**
 - B. Paid a cash dividend to stockholders
 - C. Purchased equipment for cash
 - D. Collected cash from an account receivable

Difficulty: Medium
Edmonds - Chapter 02 #105
Learning Objective: 8

106. Which of the following is an asset exchange transaction?
- A. Borrowed cash from a local bank.
 - B. Incurred expenses on account.
 - C. Recognized accrued salaries expense.
 - D. Paid cash to purchase land.**

Difficulty: Medium
Edmonds - Chapter 02 #106
Learning Objective: 8

107. A transaction that increases cash and increases notes payable is a/an
 A. claims exchange transaction.
B. asset source transaction.
 C. asset use transaction.
 D. asset exchange transaction.

Difficulty: Medium
 Edmonds - Chapter 02 #107
 Learning Objective: 8

108. A transaction that decreases cash and decreases notes payable is a/an
 A. claims exchange transaction.
 B. asset source transaction.
C. asset use transaction.
 D. asset exchange transaction.

Difficulty: Medium
 Edmonds - Chapter 02 #108
 Learning Objective: 8

109. The recognition of an expense may be accompanied by which of the following?
 A. an increase in assets
 B. a decrease in liabilities
 C. a decrease in revenue
D. an increase in liabilities

Difficulty: Medium
 Edmonds - Chapter 02 #109
 Learning Objective: 8

110. Which of the following could describe the effects of a claims exchange transaction on a company's financial statements?

	Balance Sheet					Income Statement					Statement of Cash Flows
	Assets	=	Liab.	+	Equity	Rev.	-	Exp.	=	Net Inc.	
A)	NA	=	NA	+	NA	NA	-	NA	=	NA	+ OA
B)	+	=	+	+	NA	NA	-	NA	=	NA	+ OA
C)	NA	=	+	+	-	NA	-	+	=	-	NA
D)	All of the above could represent the effects of claims exchange transactions.										

- A. Choice A
 B. Choice B
C. Choice C
 D. Choice D

Difficulty: Medium
 Edmonds - Chapter 02 #110
 Learning Objective: 8

111. Recognition of revenue may result in which of the following?
 A. a decrease in a liability
 B. an increase in a liability
 C. an increase in assets
D. A and C

Difficulty: Medium
 Edmonds - Chapter 02 #111
 Learning Objective: 4
 Learning Objective: 8

112. Which of the following is an example of a claims exchange transaction?
 A. an asset decreases and an equity account decreases.
 B. an asset increases and another asset decreases.
C. a liability increases and an equity account decreases.
 D. a liability increases and an equity account also increases.

Difficulty: Medium
 Edmonds - Chapter 02 #112
 Learning Objective: 8

113. Which of the following transactions is a claims exchange transaction?
- A. Paid cash to retire notes payable.
 - B. Issued common stock for cash.
 - C. Purchased office equipment for cash.
 - D. Made adjusting entry to recognize the portion of unearned revenue that has been earned.**

Difficulty: Hard
Edmonds - Chapter 02 #113
Learning Objective: 8

114. Kelly Company uses accrual accounting. Indicate whether each of the following statements regarding Kelly's accounting system is true or false.
- _____ a) The recognition of an accounting event and the collection or payment of cash may occur in different accounting periods.
 - _____ b) The cash consequence of a transaction cannot occur after its accounting recognition.
 - _____ c) Recognition is an act of recording an event in the financial statements.
 - _____ d) The term "accrual" refers to events that are recognized after the associated cash is paid or collected.
 - _____ e) Accrual basis accounting is required by generally accepted accounting principles.

a) T b) F c) T d) F e) T

Difficulty: Medium
Edmonds - Chapter 02 #114
Learning Objective: 1

115. Regarding the relationship of revenues and expenses to assets and liabilities, state whether each of the following statements is true or false.
- _____ a) An increase in assets may be associated with recording a revenue.
 - _____ b) An increase in liabilities may be associated with recording a revenue.
 - _____ c) Recording an expense may be associated with a decrease in liabilities.
 - _____ d) Recording an expense may be associated with a decrease in an asset.
 - _____ e) At the end of the accounting period, recording earned but unpaid salaries of employees is a claims exchange transaction.

a) T b) F c) F d) T e) T

Difficulty: Medium
Edmonds - Chapter 02 #115
Learning Objective: 1
Learning Objective: 3

116. Indicate whether each of the following statements about the closing process and the accounting cycle is true or false.
- _____ a) All accounts are closed at the end of each accounting cycle.
 - _____ b) Temporary accounts are closed at the end of the accounting cycle.
 - _____ c) Revenue and expense accounts are closed to Retained Earnings.
 - _____ d) Permanent accounts, which are not closed, contain information that carries over from one year to the next.
 - _____ e) The Retained Earnings account is considered a temporary account.

a) F b) T c) T d) T e) F

Difficulty: Medium
Edmonds - Chapter 02 #116
Learning Objective: 4

117. Indicate whether each of the following statements is true or false:
- ☐ a) Closing a revenue account increases the amount of Retained Earnings.
 - ☐ b) Closing an expense account causes a decrease in the amount of Retained Earnings.
 - ☐ c) The only accounts that are closed at the end of each accounting period are revenues and expenses.
 - ☐ d) Closing the accounts is the first step in the accounting cycle.
 - ☐ e) Asset and liability accounts are not closed.

a) T b) T c) F d) F e) T

Difficulty: Medium
Edmonds - Chapter 02 #117
Learning Objective: 4

118. Indicate whether each of the following statements is true or false. On May 1, 2010, Ray Co. received an advance payment from a customer for services to be performed in the next 4 months. Recognizing the receipt of the payment would
- ☐ a) have no effect on revenues.
 - ☐ b) increase liabilities.
 - ☐ c) not affect the financial statements.
 - ☐ d) increase cash flow from operating activities.
 - ☐ e) increase equity.

a) T b) T c) F d) T e) F

Difficulty: Hard
Edmonds - Chapter 02 #118
Learning Objective: 6

119. Indicate whether each of the following statements is true or false. In December 2009, Leigh Corporation received a payment from a customer for services to be provided in January and February of 2010. Upon completion of the services, Leigh Corporation would:
- ☐ a) record nothing because the cash had been collected during the previous year.
 - ☐ b) recognize an increase in assets.
 - ☐ c) report a positive cash flow from operating activities for 2010.
 - ☐ d) recognize an increase in revenues.
 - ☐ e) recognize a decrease in liabilities.

a) F b) F c) F d) T e) T

Difficulty: Hard
Edmonds - Chapter 02 #119
Learning Objective: 6

120. Indicate whether each of the following statements is true or false. On December 31, 2009, Detroit Co. paid \$6,000 cash for insurance coverage for the year 2010.
- ☐ a) The company's 2010 statement of cash flows would not be affected by this transaction.
 - ☐ b) Retained earnings on the 2010 balance sheet would not be affected by this transaction.
 - ☐ c) Net income in 2010 would decrease due to events related to this transaction.
 - ☐ d) The 2010 cash balance would decrease when insurance expense was recognized.
 - ☐ e) Total assets in 2010 would not be affected by events related to this transaction.

a) T b) T c) T d) F e) F

Difficulty: Hard
Edmonds - Chapter 02 #120
Learning Objective: 6

121. Indicate whether each of the following statements is true or false. Canton Company's prepaid rent expired on December 31, 2010. On this day, Canton would prepare an adjusting entry that would:
- ☐ a) recognize Rent Expense.
 - ☐ b) decrease Cash.
 - ☐ c) recognize Rent Revenue.
 - ☐ d) decrease Prepaid Rent.
 - ☐ e) increase equity.

a) T b) F c) F d) T e) F

Difficulty: Hard
Edmonds - Chapter 02 #121
Learning Objective: 6

122. Regarding the accrual accounting system, indicate whether each of the following statements is true or false.
- ☐ a) Accruing salary expense at the end of an accounting period is an asset use transaction.
 - ☐ b) An accrual refers to an accounting event in which the cash payment or receipt occurs before a revenue or expense is recognized.
 - ☐ c) A deferral refers to an accounting event in which the cash payment or receipt occurs before revenue or expense is recognized.
 - ☐ d) A deferral may involve an adjusting entry between a liability and a revenue account.
 - ☐ e) If a cost produces a future benefit, it should be recorded as an asset.

a) F b) F c) T d) T e) T

Difficulty: Medium
Edmonds - Chapter 02 #122
Learning Objective: 1
Learning Objective: 2
Learning Objective: 6

123. In 2010, Spencer Co. collected cash from a customer for services performed in 2009. Indicate whether each of the following statements is true or false.
- ☐ a) The 2010 income statement is not affected by this transaction.
 - ☐ b) The 2010 statement of cash flows is affected by this transaction.
 - ☐ c) This transaction (collection of cash) is an asset source transaction.
 - ☐ d) The revenue related to this transaction was recorded in 2009.
 - ☐ e) This transaction would cause the cash flow from investing activities to increase in 2010.

a) T b) T c) F d) T e) F

Difficulty: Medium
Edmonds - Chapter 02 #123
Learning Objective: 3
Learning Objective: 6

124. Sonora Co. paid \$57,000 in January 2010 for employee salaries that were accrued in December 2009. Indicate whether each of the following statements about this transaction in January is true or false.
- _____ a) The 2010 income statement would not be affected because salaries expense had been recognized at the end of December.
 - _____ b) This transaction would cause cash flows from operating activities for 2010 to decrease.
 - _____ c) On the balance sheet, cash decreased and stockholders' equity decreased when the salaries were paid.
 - _____ d) The statement of changes in stockholders' equity would not be affected in 2010 because the salaries expense had been recognized in the previous year.
 - _____ e) Recording the salaries expense in 2009 was a deferral.

a) T b) T c) F d) T e) F

Difficulty: Medium
Edmonds - Chapter 02 #124
Learning Objective: 3
Learning Objective: 6

125. Indicate whether each of the following statements regarding the four types of transactions is true or false.
- _____ a) An asset source transaction involves an increase in assets and an increase in a corresponding claims account.
 - _____ b) An asset use transaction involves a decrease in assets and a decrease in a claims account.
 - _____ c) An asset exchange transaction involves an increase in an asset and a decrease in a claims account.
 - _____ d) An asset exchange transaction involves an increase in one asset and a decrease in another asset.
 - _____ e) A claims exchange transaction involves an increase in one claims account and a decrease in another claims account.

a) T b) T c) F d) T e) T

Difficulty: Easy
Edmonds - Chapter 02 #125
Learning Objective: 8

126. Indicate whether each of the following statements is true or false.
- _____ a) If a company pays in 2009 for office supplies that are used in 2010, the Supplies Expense should be recognized in 2009.
 - _____ b) A deferral refers to an earnings event that is recognized after cash has been paid or received.
 - _____ c) If a company provides services to a customer in 2009 and collects the cash in 2010, the revenue should be recognized on the income statement in 2009.
 - _____ d) Dee Company provided services to a customer in 2009 but the customer is not expected to pay for the services until 2010. In 2009, Dee Company should record an increase to Accounts Receivable and an increase to Revenue.
 - _____ e) Providing services to a customer on account is an asset exchange transaction.

a) F b) T c) T d) T e) F

Difficulty: Medium
Edmonds - Chapter 02 #126
Learning Objective: 1
Learning Objective: 8

127. The term "recognition" means to report an economic event in the financial statements.
TRUE

Difficulty: Easy
Edmonds - Chapter 02 #127
Learning Objective: 1

128. Companies that use accrual accounting recognize revenues and expenses at the time that cash is paid or received.

FALSE

*Difficulty: Easy
Edmonds - Chapter 02 #128
Learning Objective: 1*

129. The term "accrual" describes an earnings event that is recognized before cash is paid or received.

TRUE

*Difficulty: Easy
Edmonds - Chapter 02 #129
Learning Objective: 1*

130. Adjusting entries do not affect a business's Cash account.

TRUE

*Difficulty: Medium
Edmonds - Chapter 02 #130
Learning Objective: 1*

131. An adjusting entry to accrue salary expense is a claims exchange transaction.

TRUE

*Difficulty: Medium
Edmonds - Chapter 02 #131
Learning Objective: 1*

132. Assets are listed on the balance sheet in order of amount.

FALSE

*Difficulty: Medium
Edmonds - Chapter 02 #132
Learning Objective: 3*

133. Revenues and liabilities are temporary accounts that are closed at the end of the accounting period.

FALSE

*Difficulty: Easy
Edmonds - Chapter 02 #133
Learning Objective: 4*

134. In the closing process, the amounts in temporary accounts are moved to Retained Earnings, a permanent account.

TRUE

*Difficulty: Easy
Edmonds - Chapter 02 #134
Learning Objective: 4*

135. Immediately after closing, every temporary account has a balance of \$0.

TRUE

*Difficulty: Easy
Edmonds - Chapter 02 #135
Learning Objective: 4*

136. Accounts that are closed include expenses, dividends, and unearned revenues.

FALSE

*Difficulty: Medium
Edmonds - Chapter 02 #136
Learning Objective: 4*

137. After closing, the only accounts with non-zero balances are assets, liabilities, and equity.

TRUE

*Difficulty: Hard
Edmonds - Chapter 02 #137
Learning Objective: 4*

138. Two of the steps in the accounting cycle are adjusting the accounts and closing the accounts.

TRUE

*Difficulty: Easy
Edmonds - Chapter 02 #138
Learning Objective: 4*

139. Cash-basis accounting often fails to match expenses with revenues.

TRUE

*Difficulty: Easy
Edmonds - Chapter 02 #139
Learning Objective: 4*

140. The matching concept leads accountants to select the recognition alternative that produces the lowest amount of net income.

FALSE

*Difficulty: Medium
Edmonds - Chapter 02 #140
Learning Objective: 4*

141. Businesses often recognize a revenue or expense, even though the corresponding cash collection or payment did not occur in the same accounting period.

TRUE

*Difficulty: Easy
Edmonds - Chapter 02 #141
Learning Objective: 6*

142. Significant interrelationships exist among a company's four financial statements for a given accounting period.

TRUE

*Difficulty: Easy
Edmonds - Chapter 02 #142
Learning Objective: 6*

143. An accrual may involve an adjusting entry between an expense and a liability.

TRUE

*Difficulty: Medium
Edmonds - Chapter 02 #143
Learning Objective: 6*

144. All major professional accounting organizations have adopted formal codes of professional ethics.

TRUE

*Difficulty: Medium
Edmonds - Chapter 02 #144
Learning Objective: 7*

145. The Sarbanes-Oxley Act of 2002 eased the rules governing auditors' independence.

FALSE

*Difficulty: Easy
Edmonds - Chapter 02 #145
Learning Objective: 7*

146. The Sarbanes –Oxley Act of 2002 clarified the legal responsibility of company managers for the entity's financial reports.

TRUE

*Difficulty: Easy
Edmonds - Chapter 02 #146
Learning Objective: 7*

147. A business's internal controls are policies and procedures designed to reduce opportunities for fraud.

TRUE

*Difficulty: Easy
Edmonds - Chapter 02 #147
Learning Objective: 7*

148. Corporate governance is the relationships among a business's stakeholders that determine how the business is operated.

TRUE

*Difficulty: Easy
Edmonds - Chapter 02 #148
Learning Objective: 7*

149. One of the requirements of the code of ethics of the AICPA is that members must act in a way that serves the public interest.
TRUE
- Difficulty: Easy*
Edmonds - Chapter 02 #149
Learning Objective: 7
150. A company's outside, independent auditors are responsible for preparing its financial statements.
FALSE
- Difficulty: Medium*
Edmonds - Chapter 02 #150
Learning Objective: 7
151. The Sarbanes-Oxley Act of 2002 placed limits on the ability of a company's auditor to perform other, non-audit services for the company.
TRUE
- Difficulty: Medium*
Edmonds - Chapter 02 #151
Learning Objective: 7
152. The collection of an account receivable is a claims exchange transaction.
FALSE
- Difficulty: Medium*
Edmonds - Chapter 02 #152
Learning Objective: 1
153. Providing services to customers on account is an asset source transaction.
TRUE
- Difficulty: Medium*
Edmonds - Chapter 02 #153
Learning Objective: 8
154. An adjusting entry that decreases Unearned Service Revenue and increases Service Revenue is a claims exchange transaction.
TRUE
- Difficulty: Easy*
Edmonds - Chapter 02 #154
Learning Objective: 1
155. Revenue is the economic benefit derived from operating a business.
TRUE
- Difficulty: Medium*
Edmonds - Chapter 02 #155
Learning Objective: 8
156. Often, the recognition of revenue is accompanied by an increase in liabilities.
FALSE
- Difficulty: Easy*
Edmonds - Chapter 02 #156
Learning Objective: 8
157. Classify each of the following costs as an asset or expense.
a) _____ Paid advertising for the current month.
b) _____ Used supplies to generate revenue.
c) _____ Purchased a building with cash.
d) _____ Paid two years rent in advance.
- a) Expense b) Expense c) Asset d) Asset
- Difficulty: Medium*
Edmonds - Chapter 02 #157
Learning Objective: 1

158. Treat each part of this problem as independent of the others.
- a) At January 1, 2010, the amount of accounts receivable was \$20,000. Cash collected on accounts receivable during the year was \$75,000. At December 31, 2010, the amount of accounts receivable was \$30,000. What were the revenues earned on account during 2010?
- b) At January 1, 2010, accounts payable was \$17,000. During 2010, expenses on account were \$28,000. At December 31, 2010, accounts payable was \$15,000. What was the amount of cash paid on accounts payable during 2010?
- c) At January 1, 2010, the balance in the Retained Earnings account was \$7,200. During the year, revenue earned was \$19,800 and expenses incurred were \$7,400. At December 31, 2010, the balance in the retained earnings account was \$14,200. What was the amount of cash dividends paid to stockholders during 2010?
- a) \$85,000 ($\$20,000 + X - 75,000 = 30,000$)
b) \$30,000 ($\$17,000 + 28,000 - X = 15,000$)
c) \$5,400 ($\$7,200 + 12,400 \text{ net income} - X = \$14,200$)

Difficulty: Medium
Edmonds - Chapter 02 #158
Learning Objective: 2