

## Chapter 2 Review of the Accounting Process

### True/False Questions

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

Answer: True

Level of Learning: 1 Easy

Learning Objective: 02-01

Topic Area: The basic model – Accounting equation

Blooms: Remember

AACSB: Reflective thinking

AICPA: BB Critical Thinking

2. Debits increase asset accounts and decrease liability accounts.

Answer: True

Level of Learning: 1 Easy

Learning Objective: 02-01

Topic Area: The basic model – Account relationships

Blooms: Remember

AACSB: Reflective thinking

AICPA: BB Critical Thinking

3. Balance sheet accounts are referred to as temporary accounts because their balances are always changing.

Answer: False

Level of Learning: 1 Easy

Learning Objective: 02-01

Topic Area: The basic model – Account relationships

Blooms: Remember

AACSB: Reflective thinking

AICPA: BB Critical Thinking

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

Answer: False

Level of Learning: 1 Easy

Learning Objective: 02-01

Topic Area: Accounting processing cycle

Blooms: Remember

AACSB: Reflective thinking

AICPA: BB Critical Thinking

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

Answer: True

## Chapter 2 Review of the Accounting Process

Level of Learning: 1 Easy  
Learning Objective: 02-04  
Topic Area: Adjusting entries  
Blooms: Remember  
AACSB: Reflective thinking  
AICPA: BB Critical Thinking

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

Answer: False  
Level of Learning: 1 Easy  
Learning Objective: 02-04  
Topic Area: Adjusting entries – Identify types  
Blooms: Remember  
AACSB: Reflective thinking  
AICPA: BB Critical Thinking

7. The adjusted trial balance contains only permanent accounts.

Answer: False  
Level of Learning: 1 Easy  
Learning Objective: 02-05  
Topic Area: Prepare an adjusted trial balance  
Blooms: Remember  
AACSB: Reflective thinking  
AICPA: BB Critical Thinking

8. The income statement summarizes the operating activity of a firm at a particular point in time.

Answer: False  
Level of Learning: 1 Easy  
Learning Objective: 02-06  
Topic Area: Preparing the financial statements  
Blooms: Remember  
AACSB: Reflective thinking  
AICPA: FN Measurement

9. The balance sheet can be considered a change or flow statement.

Answer: False  
Level of Learning: 1 Easy  
Learning Objective: 02-06  
Topic Area: Preparing the financial statements  
Blooms: Remember  
AACSB: Reflective thinking  
AICPA: FN Measurement

## Chapter 2 Review of the Accounting Process

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

Answer: True  
Level of Learning: 1 Easy  
Learning Objective: 02-06  
Topic Area: Preparing the financial statements  
Blooms: Remember  
AACSB: Reflective thinking  
AICPA: FN Measurement

11. The statement of shareholders' equity discloses the changes in the temporary shareholders' equity accounts.

Answer: False  
Level of Learning: 2 Medium  
Learning Objective: 02-06  
Topic Area: Preparing the financial statements  
Blooms: Remember  
AACSB: Reflective thinking  
AICPA: FN Measurement

12. The post-closing trial balance contains only permanent accounts.

Answer: True  
Level of Learning: 1 Easy  
Learning Objective: 02-07  
Topic Area: Closing process  
Blooms: Remember  
AACSB: Reflective thinking  
AICPA: BB Critical Thinking

13. The closing process brings all temporary accounts to a zero balance and updates the balance in the retained earnings account.

Answer: True  
Level of Learning: 1 Easy  
Learning Objective: 02-07  
Topic Area: Closing process  
Blooms: Remember  
AACSB: Reflective thinking  
AICPA: BB Critical Thinking

14. A reversing entry at the beginning of a period for salaries would include a debit to salaries expense.

Answer: False  
Level of Learning: 2 Medium  
Learning Objective: Appendix 2B

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Topic Area: Reversing entries  
Blooms: Remember  
AACSB: Reflective thinking  
AICPA: BB Critical Thinking

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

Answer: True  
Level of Learning: 1 Easy  
Learning Objective: Appendix 2C  
Topic Area: Subsidiary ledgers and special journals  
Blooms: Remember  
AACSB: Reflective thinking  
AICPA: BB Critical Thinking

16. The payment of cash to a supplier would be recorded in a purchases journal.

Answer: False  
Level of Learning: 1 Easy  
Learning Objective: Appendix 2C  
Topic Area: Subsidiary ledgers and special journals  
Blooms: Remember  
AACSB: Reflective thinking  
AICPA: BB Critical Thinking

### Multiple Choice Questions

17. The accounting equation can be stated as:

- a.  $A + L - OE = 0$ .
- b.  $A - L + OE = 0$ .
- c.  $-A + L - OE = 0$ .
- d.  $A - L - OE = 0$ .

Answer: d  
Level of Learning: 2 Medium  
Learning Objective: 02-01  
Topic Area: The basic model – Accounting equation  
Blooms: Remember  
AACSB: Reflective thinking  
AICPA: BB Critical Thinking

18. Examples of external transactions include all of the following except:

- a. Paying employee salaries.
- b. Purchasing equipment.
- c. Depreciating equipment.
- d. Collecting a receivable.

Answer: c

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Level of Learning: 2 Medium

Learning Objective: 02-01

Topic Area: The basic model

Blooms: Understand

AACSB: Reflective thinking

AICPA: BB Critical Thinking

19. Examples of internal transactions include all of the following except:
- Writing off an uncollectible account.
  - Recording the expiration of prepaid insurance.
  - Recording unpaid salaries.
  - Paying salaries to company employees.

Answer: d

Level of Learning: 2 Medium

Learning Objective: 02-01

Topic Area: The basic model

Blooms: Understand

AACSB: Reflective thinking

AICPA: BB Critical Thinking

20. XYZ Corporation receives \$100,000 from investors for issuing them shares of its stock. XYZ's journal entry to record this transaction would include a:
- Debit to investments.
  - Credit to retained earnings.
  - Credit to capital stock.
  - Credit to revenue.

Answer: c

Level of Learning: 2 Medium

Learning Objective: 02-02

Topic Area: Record transactions in the general journal

Blooms: Analyze

AACSB: Analytic

AICPA: FN Measurement

21. Incurring an expense for advertising on account would be recorded by:
- Debiting liabilities.
  - Crediting assets.
  - Debiting an expense.
  - Debiting assets.

Answer: c

Level of Learning: 2 Medium

Learning Objective: 02-02

Topic Area: Record transactions in the general journal

Blooms: Analyze

AACSB: Analytic

AICPA: FN Measurement

## Chapter 2 Review of the Accounting Process

22. A sale on account would be recorded by:
- Debiting revenue.
  - Crediting assets.
  - Crediting liabilities.
  - Debiting assets.

Answer: d

Level of Learning: 2 Medium

Learning Objective: 02-02

Topic Area: Record transactions in the general journal

Blooms: Analyze

AACSB: Analytic

AICPA: FN Measurement

23. Mary Parker Co. invested \$15,000 in ABC Corporation and received capital stock in exchange. Mary Parker Co.'s journal entry to record this transaction would include a:
- Debit to investments.
  - Credit to retained earnings.
  - Credit to capital stock.
  - Debit to expense.

Answer: a

Level of Learning: 2 Medium

Learning Objective: 02-02

Topic Area: Record transactions in the general journal

Blooms: Analyze

AACSB: Analytic

AICPA: FN Measurement

24. Hughes Aircraft sold a four-passenger airplane for \$380,000, receiving a \$50,000 down payment and a 12% note for the balance. The journal entry to record this sale would include a:
- Credit to cash.
  - Debit to cash discount.
  - Debit to note receivable.
  - Credit to note receivable.

Answer: c

Level of Learning: 3 Hard

Learning Objective: 02-02

Topic Area: Record transactions in the general journal

Blooms: Analyze

AACSB: Analytic

AICPA: FN Measurement

## Chapter 2 Review of the Accounting Process

25. Somerset Leasing received \$12,000 for 24 months' rent in advance. How should Somerset record this transaction?

a.	Prepaid rent	12,000	
	Rent expense		12,000
b.	Cash	12,000	
	Deferred revenue		12,000
c.	Interest expense	12,000	
	Interest payable		12,000
d.	Salaries expense	12,000	
	Salaries payable		12,000

Answer: b

Level of Learning: 2 Medium

Learning Objective: 02-02

Topic Area: Record transactions in the general journal

Blooms: Apply

AACSB: Analytic

AICPA: FN Measurement

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

a.	Inventory	620	
	Accounts receivable		620
	Sales	960	
	Revenue from sales		960
b.	Accounts receivable	960	
	Sales revenue		960
	Cost of goods sold	620	
	Inventory		620
c.	Inventory	620	
	Gain on sale	340	
	Sales revenue		960
d.	Accounts receivable	960	
	Sales revenues		620
	Gain on sale		340

Answer: b

Level of Learning: 3 Hard

Learning Objective: 02-02

Topic Area: Record transactions in the general journal

Blooms: Apply

AACSB: Analytic

AICPA: FN Measurement

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

a.	Inventory	2,000	
	Accounts payable		2,000
b.	Cost of goods sold	2,000	
	Deferred revenue	1,000	
	Sales in advance		3,000
c.	Cost of goods sold	2,000	
	Inventory payable		2,000
d.	Cost of goods sold	2,000	
	Profit	1,000	
	Sales payable		3,000

Answer: a

Level of Learning: 3 Hard

Learning Objective: 02-02

Topic Area: Record transactions in the general journal

Blooms: Apply

AACSB: Analytic

AICPA: FN Measurement

28. Which of the following accounts has a normal debit balance?

- a. Accounts payable.
- b. Accrued taxes.
- c. Accumulated depreciation.
- d. Advertising expense.

Answer: d

Level of Learning: 1 Easy

Learning Objective: 02-01

Learning Objective: 02-05

Topic Area: The basic model – Account relationships

Topic Area: Prepare an adjusted trial balance

Blooms: Remember

AACSB: Reflective thinking

AICPA: BB Critical Thinking

29. An example of a contra account is:

- a. Depreciation expense.
- b. Accounts receivable.
- c. Sales revenue.
- d. Accumulated depreciation.

Answer: d

Level of Learning: 1 Easy

Learning Objective: 02-04

Topic Area: Adjusting entries – Identify types

Blooms: Remember

AACSB: Reflective thinking

AICPA: BB Critical Thinking



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30. Making insurance payments in advance is an example of:
- An accrued receivable transaction.
  - An accrued liability transaction.
  - A deferred revenue transaction.
  - A prepaid expense transaction.

Answer: d

Level of Learning: 1 Easy

Learning Objective: 02-04

Topic Area: Adjusting entries – Identify types

Blooms: Understand

AACSB: Reflective thinking

AICPA: BB Critical Thinking

31. Recording revenue that is earned, but not yet collected, is an example of:
- A prepaid expense transaction.
  - A deferred revenue transaction.
  - An accrued liability transaction.
  - An accrued receivable transaction.

Answer: d

Level of Learning: 1 Easy

Learning Objective: 02-04

Topic Area: Adjusting entries – Identify types

Blooms: Understand

AACSB: Reflective thinking

AICPA: BB Critical Thinking

32. When a magazine company collects cash for selling a subscription, it is an example of:
- An accrued liability transaction.
  - An accrued receivable transaction.
  - A prepaid expense transaction.
  - A deferred revenue transaction.

Answer: d

Level of Learning: 1 Easy

Learning Objective: 02-04

Topic Area: Record transactions in the general journal

Blooms: Understand

AACSB: Reflective thinking

AICPA: BB Critical Thinking

33. On December 31, 2015, Coolwear, Inc. had a balance in its prepaid insurance account of \$48,400. During 2016, \$86,000 was paid for insurance. At the end of 2016, after adjusting entries were recorded, the balance in the prepaid insurance account was 42,000. Insurance expense for 2016 would be:
- \$ 6,400.
  - \$134,400.

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- c. \$ 86,000.
- d. \$ 92,400.

Answer: d

Level of Learning: 2 Medium

Learning Objective: 02-05

Learning Objective: 02-08

Topic area: Adjusting entries – Record and post

Topic Area: Conversion from cash basis to accrual basis

Blooms: Analyze

AACSB: Analytic

AICPA: FN Measurement

Feedback: Insurance expense = \$48,400 + 86,000 – 42,000 = \$92,400

34. Adjusting entries are primarily needed for:
- a. Cash basis accounting.
  - b. Accrual accounting.
  - c. Current value accounting.
  - d. Manual accounting systems.

Answer: b

Level of Learning: 1 Easy

Learning Objective: 02-04

Topic Area: Adjusting entries

Blooms: Remember

AACSB: Reflective thinking

AICPA: BB Critical Thinking

35. Prepayments occur when:
- a. Cash flow precedes expense recognition.
  - b. Sales are delayed pending credit approval.
  - c. Customers are unable to pay the full amount due when goods are delivered.
  - d. Manufactured goods await quality control inspections.

Answer: a

Level of Learning: 2 Medium

Learning Objective: 02-04

Topic Area: Adjusting Entries – Identify types

Blooms: Remember

AACSB: Reflective thinking

AICPA: BB Critical Thinking

36. Accruals occur when cash flows:
- a. Occur before expense recognition.
  - b. Occur after revenue or expense recognition.
  - c. Are uncertain.
  - d. May be substituted for goods or services.

Answer: b

Level of Learning: 2 Medium

## Chapter 2 Review of the Accounting Process

Learning Objective: 02-04

Topic Area: Adjusting entries – Identify types

Blooms: Remember

AACSB: Reflective thinking

AICPA: BB Critical Thinking

37. On December 31, 2016, the end of Larry's Used Cars' first year of operations, the accounts receivable was \$53,600. The company estimates that \$1,200 of the year-end receivables will not be collected. Accounts receivable in the 2016 balance sheet will be valued at:
- \$53,600.
  - \$54,800.
  - \$52,400.
  - \$ 1,200.

Answer: c

Level of Learning: 2 Medium

Learning Objective: 02-04

Learning Objective: 02-05

Topic Area: Adjusting entries – Identify types

Topic area: Adjusting entries – Record and post

Blooms: Analyze

AACSB: Analytic

AICPA: FN Measurement

Feedback: Accounts receivable = \$53,600 – 1,200 = \$52,400

38. Cal Farms reported supplies expense of \$2,000,000 this year. The supplies account decreased by \$200,000 during the year to an ending balance of \$400,000. What was the cost of supplies the Cal Farms purchased during the year?
- \$1,600,000.
  - \$1,800,000.
  - \$2,200,000.
  - \$2,400,000.

Answer: b

Level of Learning: 2 Medium

Learning Objective: 02-05

Learning Objective: 02-08

Topic Area: Adjusting entries – Record and post

Topic area: Conversion from cash basis to accrual basis

Blooms: Analyze

AACSB: Analytic

AICPA: FN Measurement

Feedback:

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

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

## Chapter 2 Review of the Accounting Process

39. Which of the following is **not** an adjusting entry?

- a.     Prepaid rent  
          Rent expense
- b.     Cash  
          Deferred revenue
- c.     Interest expense  
          Interest payable
- d.     Salaries expense  
          Salaries payable

Answer: b

Level of Learning: 2 Medium

Learning Objective: 02-05

Topic Area: Adjusting entries – Record and post

Blooms: Analyze

AACSB: Analytic

AICPA: FN Measurement

40. The adjusting entry required when amounts previously recorded as deferred revenues are recognized includes:

- a.   A debit to a liability.
- b.   A debit to an asset.
- c.   A credit to a liability.
- d.   A credit to an asset.

Answer: a

Level of Learning: 2 Medium

Learning Objective: 02-05

Topic Area: Adjusting entries – Identify types

Blooms: Analyze

AACSB: Analytic

AICPA: BB Critical Thinking

41. Which of the following accounts has a normal credit balance?

- a.   Salary expense.
- b.   Accrued income taxes payable.
- c.   Land.
- d.   Prepaid rent.

Answer: b

Level of Learning: 1 Easy

Learning Objective: 02-01

Learning Objective: 02-05

Topic Area: The basic model – Account relationships

Topic Area: Prepare an adjusted trial balance

Blooms: Remember

AACSB: Reflective thinking

AICPA: BB Critical Thinking

## Chapter 2 Review of the Accounting Process

42. When a tenant makes an end-of-period adjusting entry credit to the “Prepaid rent” account:
- a. (S)he usually debits cash.
  - b. (S)he usually debits an expense account.
  - c. (S)he debits a liability account.
  - d. (S)he credits an owners’ equity account.

Answer: b

Level of Learning: 2 Medium

Learning Objective: 02-05

Topic Area: Adjusting entries – Record and post

Blooms: Analyze

AACSB: Analytic

AICPA: FN Measurement

43. When a business makes an end-of-period adjusting entry with a debit to supplies expense, the usual credit entry is made to:
- a. Accounts payable.
  - b. Supplies.
  - c. Cash.
  - d. Retained earnings.

Answer: b

Level of Learning: 1 Easy

Learning Objective: 02-05

Topic Area: Adjusting entries – Record and post

Blooms: Analyze

AACSB: Analytic

AICPA: FN Measurement

44. The adjusting entry required to record accrued expenses includes:
- a. A credit to cash.
  - b. A debit to an asset.
  - c. A credit to an asset.
  - d. A credit to liability.

Answer: d

Level of Learning: 1 Medium

Learning Objective: 02-05

Topic Area: Adjusting entries – Record and post

Blooms: Analyze

AACSB: Analytic

AICPA: FN Measurement

## Chapter 2 Review of the Accounting Process

45. Carolina Mills purchased \$270,000 in supplies this year. The supplies account increased by \$10,000 during the year to an ending balance of \$66,000. What was supplies expense for Carolina Mills during the year?
- a. \$300,000.
  - b. \$280,000.
  - c. \$260,000.
  - d. \$240,000.

Answer: c

Level of Learning: 2 Medium

Learning Objective: 02-05

Learning Objective: 02-08

Topic Area: Adjusting entries – Record and post

Topic area: Conversion from cash basis to accrual basis

Blooms: Analyze

AACSB: Analytic

AICPA: FN Measurement

Feedback:

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

## Chapter 2 Review of the Accounting Process

46. Yummy Foods purchased a two-year fire and extended coverage insurance policy on August 1, 2016, and charged the \$4,200 premium to Insurance expense. At its December 31, 2016, year-end, Yummy Foods would record which of the following adjusting entries?

- |    |                   |       |       |
|----|-------------------|-------|-------|
| a. | Insurance expense | 875   |       |
|    | Prepaid insurance |       | 875   |
| b. | Prepaid insurance | 875   |       |
|    | Insurance expense |       | 875   |
| c. | Insurance expense | 875   |       |
|    | Prepaid insurance | 3,325 |       |
|    | Insurance payable |       | 4,200 |
| d. | Prepaid insurance | 3,325 |       |
|    | Insurance expense |       | 3,325 |

Answer: d

Level of Learning: 2 Medium

Learning Objective: 02-05

Learning Objective: 02-08

Topic Area: Adjusting entries – Record and post

Blooms: Apply

AACSB: Analytic

AICPA: FN Measurement

Feedback:

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

Unused at 12/31:  $\$4,200 \times 19/24 = \$3,325$

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

- |    |                  |        |        |
|----|------------------|--------|--------|
| a. | Salaries expense | 22,400 |        |
|    | Prepaid salaries | 9,600  |        |
|    | Salaries payable |        | 32,000 |
| b. | Salaries expense | 6,400  |        |
|    | Salaries payable |        | 6,400  |
| c. | Prepaid salaries | 9,600  |        |
|    | Salaries payable |        | 9,600  |
| d. | Salaries expense | 22,400 |        |
|    | Salaries payable |        | 22,400 |

Answer: d

Level of Learning: 2 Medium

Learning Objective: 02-05

Topic Area: Adjusting entries – Record and post

Blooms: Apply

AACSB: Analytic

AICPA: FN Measurement

Feedback: Amount accrued:  $\$32,000 \times 7/10 = \$22,400$

## Chapter 2 Review of the Accounting Process

48. On September 1, 2016, Fortune Magazine sold 600 one-year subscriptions for \$81 each. The total amount received was credited to deferred subscriptions revenue. What is the required adjusting entry at December 31, 2016?

a.	Deferred subscriptions revenue	48,600	
	Subscriptions revenue		16,200
	Prepaid subscriptions		32,400
b.	Deferred subscriptions revenue	16,200	
	Subscriptions revenue		16,200
c.	Deferred subscriptions revenue	16,200	
	Subscriptions payable		16,200
d.	Deferred subscriptions revenue	32,400	
	Subscriptions revenue		32,400

Answer: b

Level of Learning: 2 Medium

Learning Objective: 02-05

Topic Area: Adjusting entries – Record and post

Blooms: Apply

AACSB: Analytic

AICPA: FN Measurement

Feedback:

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

Amount earned: \$48,600 x 4/12 = \$16,200

49. Mama's Pizza Shoppe borrowed \$8,000 at 9% interest on May 1, 2016, with principal and interest due on October 31, 2017. The company's fiscal year ends June 30, 2016. What adjusting entry is necessary on June 30, 2016?

a.	No entry.		
b.	Interest expense	240	
	Interest payable		240
c.	Interest expense	120	
	Interest payable		120
d.	Prepaid interest	120	
	Interest payable		120

Answer: c

Level of Learning: 2 Medium

Learning Objective: 02-05

Topic Area: Adjusting entries – Record and post

Blooms: Apply

AACSB: Analytic

AICPA: FN Measurement

Feedback: Accrued interest expense: \$8,000 x 9% x 2/12 = \$120



## Chapter 2 Review of the Accounting Process

50. On September 15, 2016, Oliver's Mortuary received a \$6,000, nine-month note bearing interest at an annual rate of 10% from the estate of Jay Hendrix for services rendered. Oliver's has a December 31 year-end. What adjusting entry will the company record on December 31, 2016?

a.	Interest receivable	175	
	Interest revenue		175
b.	Interest receivable	230	
	Interest revenue		230
c.	Interest receivable	175	
	Notes receivable		175
d.	Interest receivable	600	
	Interest revenue		175
	Cash		425

Answer: a

Level of Learning: 2 Medium

Learning Objective: 02-05

Topic Area: Adjusting entries – Record and post

Blooms: Apply

AACSB: Analytic

AICPA: FN Measurement

Feedback: Accrued interest revenue:  $\$6,000 \times 10\% \times 3.5/12 = \$175$

51. In its first year of operations Acme Corp. had income before tax of \$400,000. Acme made income tax payments totaling \$150,000 during the year and has an income tax rate of 40%. What is the balance in income tax payable at the end of the year?
- \$160,000 credit.
  - \$150,000 credit.
  - \$ 10,000 credit.
  - \$ 10,000 debit.

Answer: c

Level of Learning: 2 Medium

Learning Objective: 02-05

Learning Objective: 02-08

Topic Area: Adjusting entries – Record and post

Topic area: Conversion from cash basis to accrual basis

Blooms: Analyze

AACSB: Analytic

AICPA: FN Measurement

Feedback:

Income tax expense =  $\$400,000 \times 40\% = \$160,000$

Income Tax Payable	
<u>150,000</u>	<u>160,000</u>
	10,000

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52. Eve's Apples opened business on January 1, 2016, and paid for two insurance policies effective that date. The liability policy was \$36,000 for 18 months, and the crop damage policy was \$12,000 for a two-year term. What is the balance in Eve's prepaid insurance as of December 31, 2016?
- \$ 9,000.
  - \$18,000.
  - \$30,000.
  - \$48,000.

Answer: b

Level of Learning: 3 Hard

Learning Objective: 02-05

Learning Objective: 02-08

Topic Area: Adjusting entries – Record and post

Blooms: Analyze

AACSB: Analytic

AICPA: FN Measurement

Feedback:

Prepaid liability insurance: $\$36,000 \times 6/18$	\$12,000
Prepaid hazard insurance: $\$12,000 \times 12/24$	<u>6,000</u>
Total prepaid insurance at 12/31/16	<u>\$18,000</u>

53. Fink Insurance collected premiums of \$18,000,000 from its customers during the current year. The adjusted balance in the Deferred premiums account increased from \$6 million to \$8 million dollars during the year. What is Fink's revenue from insurance premiums recognized for the current year?
- \$10,000,000.
  - \$16,000,000.
  - \$18,000,000.
  - \$20,000,000.

Answer: b

Level of Learning: 2 Medium

Learning Objective: 02-05

Learning Objective: 02-08

Topic Area: Adjusting entries – Record and post

Topic area: Conversion from cash basis to accrual basis

Blooms: Analyze

AACSB: Analytic

AICPA: FN Measurement

Feedback:

Cash collections	\$18,000,000
Deduct increase in deferred premiums	<u>( 2,000,000)</u>
Premiums earned	<u>\$16,000,000</u>

54. On November 1, 2016, Tim's Toys borrows \$30,000,000 at 9% to finance the holiday sales season. The note is for a six-month term and both principal and interest are payable at maturity. What is the balance of interest payable for the loan as of December 31, 2016?
- \$ 112,500.
  - \$ 225,000.

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- c. \$ 450,000.
- d. \$1,350,000.

Answer: c

Level of Learning: 2 Medium

Learning Objective: 02-05

Topic Area: Adjusting entries – Record and post

Blooms: Apply

AACSB: Analytic

AICPA: FN Measurement

Feedback: Accrued interest payable =  $\$30,000,000 \times 9\% \times 2/12 = \underline{\$450,000}$

55. An economic resource of an entity is:

- a. A revenue.
- b. An asset.
- c. A liability.
- d. A contra asset until used.

Answer: b

Level of Learning: 1 Easy

Learning Objective: 02-01

Topic Area: The basic model – Account relationships

Blooms: Remember

AACSB: Reflective thinking

AICPA: BB Critical Thinking

56. Cost of goods sold is:

- a. An asset account.
- b. A revenue account.
- c. An expense account.
- d. A permanent equity account.

Answer: c

Level of Learning: 1 Easy

Learning Objective: 02-02

Topic Area: Record transactions in the general journal

Blooms: Remember

AACSB: Reflective thinking

AICPA: BB Critical Thinking

57. The balance in retained earnings at the end of the year is determined by retained earnings at the beginning of the year:

- a. Plus revenues, minus liabilities.
- b. Plus accruals, minus deferrals.
- c. Plus net income, minus dividends.
- d. Plus assets, minus liabilities.

Answer: c

Level of Learning: 1 Easy

Learning Objective: 02-06

## Chapter 2 Review of the Accounting Process

Topic Area: Preparing the financial statements  
Blooms: Remember  
AACSB: Reflective thinking  
AICPA: FN Measurement

58. In its first year of operations Best Corp. had income before tax of \$500,000. Best made income tax payments totaling \$210,000 during the year and has an income tax rate of 40%. What was Best's net income for the year?
- a. \$290,000.
  - b. \$294,000.
  - c. \$300,000.
  - d. \$306,000.

Answer: c  
Level of Learning: 2 Medium  
Learning Objective: 02-06  
Topic Area: Preparing the financial statements  
Blooms: Apply  
AACSB: Analytic  
AICPA: FN Measurement  
Feedback:

Income before tax	\$500,000
Income tax ( $\$500,000 \times 40\%$ )	<u>(200,000)</u>
Net income	<u>\$300,000</u>

59. Dave's Duds reported cost of goods sold of \$2,000,000 this year. The inventory account increased by \$200,000 during the year to an ending balance of \$400,000. What was the cost of merchandise that Dave's purchased during the year?
- a. \$1,600,000.
  - b. \$1,800,000.
  - c. \$2,200,000.
  - d. \$2,400,000.

Answer: c  
Level of Learning: 2 Medium  
Learning Objective: 02-02  
Learning Objective: 02-08  
Topic Area: Record transactions in the general journal  
Topic area: Conversion from cash basis to accrual basis  
Blooms: Apply  
AACSB: Analytic  
AICPA: FN Measurement  
Feedback:

Cost of goods sold	\$2,000,000
Add increase in inventories	<u>200,000</u>
Purchases	<u>\$2,200,000</u>

## Chapter 2 Review of the Accounting Process

60. Permanent accounts would not include:

- a. Interest expense.
- b. Salaries and wages payable.
- c. Prepaid rent.
- d. Deferred revenues.

Answer: a

Level of Learning: 2 Medium

Learning Objective: 02-01

Learning Objective: 02-07

Topic Area: The basic model – Account relationships

Topic Area: The closing process

Blooms: Remember

AACSB: Reflective thinking

AICPA: BB Critical Thinking

61. Permanent accounts would not include:

- a. Cost of goods sold.
- b. Inventory.
- c. Current liabilities.
- d. Accumulated depreciation.

Answer: a

Level of Learning: 2 Medium

Learning Objective: 02-01

Learning Objective: 02-07

Topic area: The basic model – Account relationships

Topic Area: The closing process

Blooms: Remember

AACSB: Reflective thinking

AICPA: BB Critical Thinking

62. The purpose of closing entries is to transfer:

- a. Accounts receivable to retained earnings when an account is fully paid.
- b. Balances in temporary accounts to a permanent account.
- c. Inventory to cost of goods sold when merchandise is sold.
- d. Assets and liabilities when operations are discontinued.

Answer: b

Level of Learning: 2 Medium

Learning Objective: 02-07

Topic Area: The closing process

Blooms: Create

AACSB: Reflective thinking

AICPA: BB Critical Thinking

## Chapter 2 Review of the Accounting Process

63. Temporary accounts would not include:
- a. Salaries payable.
  - b. Depreciation expense.
  - c. Supplies expense.
  - d. Cost of goods sold.

Answer: a

Level of Learning: 2 Medium

Learning Objective: 02-01

Learning Objective: 02-07

Topic Area: The basic model – Account relationships

Topic Area: The closing process

Blooms: Remember

AACSB: Reflective thinking

AICPA: BB Critical Thinking

64. When converting an income statement from a cash basis to an accrual basis, expenses:
- a. Exceed cash payments to suppliers.
  - b. Equal cash payments to suppliers.
  - c. Are less than cash payments to suppliers.
  - d. May exceed or be less than cash payments to suppliers.

Answer: d

Level of Learning: 2 Medium

Learning Objective: 02-08

Topic Area: Conversion from cash basis to accrual basis

Blooms: Analyze

AACSB: Analytic

AICPA: BB Critical Thinking

65. When the amount of revenue collected in advance decreases during an accounting period:
- a. Accrual-basis revenues exceed cash collections from customers.
  - b. Accrual-basis net income exceeds cash-basis net income.
  - c. Accrual-basis revenues are less than cash collections from customers.
  - d. Accrual-basis net income is less than cash-basis net income.

Answer: a

Level of Learning: 3 Hard

Learning Objective: 02-08

Topic Area: Conversion from cash basis to accrual basis

Blooms: Analyze

AACSB: Analytic

AICPA: BB Critical Thinking

66. When converting an income statement from a cash basis to an accrual basis, which of the following is incorrect?
- a. An adjustment for depreciation reduces net income.
  - b. A decrease in salaries payable decreases net income.
  - c. A reduction in prepaid expenses decreases net income.
  - d. An increase in accrued payables decreases net income.

## Chapter 2 Review of the Accounting Process

Answer: b

Level of Learning: 2 Medium

Learning Objective: 02-08

Topic Area: Conversion from cash basis to accrual basis

Blooms: Analyze

AACSB: Analytic

AICPA: BB Critical Thinking

67. Molly's Auto Detailers maintains its records on the cash basis. During 2016, Molly's collected \$72,000 from customers and paid \$21,000 in expenses. Depreciation expense of \$5,000 would have been recorded on the accrual basis. Over the course of the year, accounts receivable increased \$4,000, prepaid expenses decreased \$2,000, and accrued liabilities decreased \$1,000. Molly's accrual basis net income was:
- a. \$38,000.
  - b. \$54,000.
  - c. \$49,000.
  - d. \$42,000.

Answer: c

Level of Learning: 3 Hard

Learning Objective: 02-08

Topic Area: Conversion from cash basis to accrual basis

Blooms: Apply

AACSB: Analytic

AICPA: FN Measurement

Feedback:

Cash receipts	\$72,000
Cash disbursements	<u>(21,000)</u>
Cash basis net income	51,000
Deduct: Depreciation expense	(5,000)
Add: Increase in accounts receivable	4,000
Deduct: Decrease in prepaid expenses	(2,000)
Add: Decrease in accrued liabilities	<u>1,000</u>
Accrual basis net income	<u>\$49,000</u>

68. Pat's Custom Tuxedo Shop maintains its records on the cash basis. During this past year Pat's collected \$42,000 in tailoring fees, and paid \$14,000 in expenses. Depreciation expense totaled \$2,000. Accounts receivable increased \$1,500, supplies increased \$4,000, and accrued liabilities increased \$2,500. Pat's accrual basis net income was:
- a. \$18,000.
  - b. \$34,000.
  - c. \$23,000.
  - d. \$29,000.

Answer: d

Level of Learning: 3 Hard

Learning Objective: 02-08

Topic Area: Conversion from cash basis to accrual basis

Blooms: Apply

## Chapter 2 Review of the Accounting Process

AACSB: Analytic

AICPA: FN Measurement

Feedback:

Cash receipts	\$42,000
Cash disbursements	<u>(14,000)</u>
Cash basis net income	28,000
Deduct depreciation expense	(2,000)
Add increase in accounts receivable	1,500
Add increase in supplies	4,000
Deduct increase in accrued liabilities	<u>(2,500)</u>
	<u>\$29,000</u>

69. The Hamada Company sales for 2016 totaled \$150,000 and purchases totaled \$95,000. Selected January 1, 2016, balances were: accounts receivable, \$18,000; inventory, \$14,000; and accounts payable, \$12,000. December 31, 2016, balances were: accounts receivable, \$16,000; inventory, \$15,000; and accounts payable, \$13,000. Net cash flows from these activities were:
- \$45,000.
  - \$55,000.
  - \$58,000.
  - \$74,000.

Answer: c

Level of Learning: 3 Hard

Learning Objective: 02-08

Topic Area: Conversion from cash basis to accrual basis

Blooms: Apply

AACSB: Analytic

AICPA: FN Measurement

Feedback:

Sales	\$150,000	Purchases	\$95,000
Add decrease in A/R	<u>2,000</u>	Deduct increase in A/P	<u>(1,000)</u>
Cash collections	\$152,000	Cash disbursements	\$94,000

Net cash flows = \$152,000 - \$94,000 = \$58,000

70. When the amount of interest receivable decreases during an accounting period:
- Accrual-basis interest revenues exceed cash collections from borrowers.
  - Accrual-basis net income exceeds cash-basis net income.
  - Accrual-basis interest revenues are less than cash collections from borrowers.
  - Accrual-basis net income is less than cash-basis net income.

Answer: c

Level of Learning: 3 Hard

Learning Objective: 02-08

Topic Area: Conversion from cash basis to accrual basis

Blooms: Analyze

AACSB: Analytic

AICPA: FN Measurement



## Chapter 2 Review of the Accounting Process

71. When converting an income statement from a cash basis to an accrual basis, cash received for services:
- Exceed service revenue.
  - May exceed or be less than service revenue.
  - Is less than service revenue.
  - Equals service revenue.

Answer: b

Level of Learning: 2 Medium

Learning Objective: 02-08

Topic Area: Conversion from cash basis to accrual basis

Blooms: Analyze

AACSB: Analytic

AICPA: FN Measurement

72. Compared to the accrual basis of accounting, the cash basis of accounting produces a higher amount of income by the net decrease during the accounting period of:

	<u>Accounts Receivable</u>	<u>Accrued Liabilities</u>
a.	Yes	No
b.	No	Yes
c.	Yes	Yes
d.	No	No

Answer: a

Level of Learning: 3 Hard

Learning Objective: 02-08

Topic Area: Conversion from cash basis to accrual basis

Blooms: Analyze

AACSB: Analytic

AICPA: FN Measurement

Feedback:

A net decrease in accounts receivable means that cash collections exceeded accrual revenue. Therefore, cash basis income would be higher when compared to accrual basis. A net decrease in accrued liabilities indicates that cash payments for expenses are greater than accrual expenses. Therefore, cash basis income would be lower than accrual basis income.

## Chapter 2 Review of the Accounting Process

73. On June 1, Royal Corp. began operating a service company with an initial cash investment by shareholders of \$2,000,000. The company provided \$6,400,000 of services in June and received full payment in July. Royal also incurred expenses of \$3,000,000 in June that were paid in August. During June, Royal paid its shareholders cash dividends of \$1,000,000. What was the company's income before income taxes for the two months ended July 31 under the following methods of accounting?

	<u>Cash Basis</u>	<u>Accrual Basis</u>
a.	\$3,400,000	\$3,400,000
b.	\$5,400,000	\$2,400,000
c.	\$6,400,000	\$3,400,000
d.	\$6,400,000	\$2,400,000

Answer: c

Level of Learning: 3 Hard

Learning Objective: 02-08

Topic Area: Conversion from cash basis to accrual basis

Blooms: Apply

AACSB: Analytic

AICPA: FN Measurement

Feedback:

Cash basis income: Cash collected in July	\$6,400,000
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Accrual basis income:

Revenue recognized in June	\$6,400,000
Less: Expenses recognized in June	<u>(3,000,000)</u>
Income	\$3,400,000

## Chapter 2 Review of the Accounting Process

74. When Castle Corporation pays insurance premiums, the transaction is recorded as a debit to prepaid insurance. Additional information for the year ended December 31 is as follows:

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

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

- a. \$218,750
- b. \$166,250
- c. \$210,000
- d. \$227,500

Answer: d

Level of Learning: 2 Medium

Learning Objective: 02-08

Topic Area: Conversion from cash basis to accrual basis

Blooms: Apply

AACSB: Analytic

AICPA: FN Measurement

Feedback:

Expense recognized	\$218,750
Add: Increase in prepaid insurance	<u>8,750</u>
Cash paid for insurance	\$227,500

## Chapter 2 Review of the Accounting Process

### Matching Pair Questions

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

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

#### Answer:

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

Level of Learning: 1 Easy

Learning Objective: 02-02

Learning Objective: 02-03

Learning Objective: 02-04

Learning Objective: 02-05

Learning Objective: 02-07

Topic Area: Record transactions in the general journal

Topic area: Prepare an unadjusted trial balance

Topic Area: Adjusting entries – Identify types

Topic Area: Prepare an adjusted trial balance

Topic Area: The closing process

Blooms: Understand

AACSB: Reflective thinking

AICPA: BB Critical Thinking

## Chapter 2 Review of the Accounting Process

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

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

### Answer:

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

Level of Learning: 1 Easy

Learning Objective: 02-01

Learning Objective: 02-04

Learning Objective: 02-06

Learning Objective: 02-07

Topic area: The basic model – Account relationships

Topic Area: Adjusting entries – Identify types

Topic Area: Preparing the financial statements

Topic Area: The closing process

Blooms: Understand

AACSB: Reflective thinking

AICPA: BB Critical Thinking

## Chapter 2 Review of the Accounting Process

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

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

**Answer:**

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

Level of Learning: 2 Medium

Learning Objective: 02-02

Learning Objective: 02-05

Topic Area: Record transactions in the general journal

Topic Area: Prepare an adjusted trial balance

Blooms: Understand

AACSB: Reflective thinking

AICPA: BB Critical Thinking

## Chapter 2 Review of the Accounting Process

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

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

**Answer:**

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

Level of Learning: 1 Easy

Learning Objective: 02-01

Learning Objective: 02-07

Topic Area: The basic model – Account relationships

Topic Area: Accounting processing cycle

Topic Area: The closing process

Blooms: Understand

AACSB: Reflective thinking

AICPA: BB Critical Thinking

## Chapter 2 Review of the Accounting Process

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

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

**Answer:**

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

Level of Learning: 1 Easy

Learning Objective: 02-01

Learning Objective: Appendix 2C

Topic Area: The basic model – Account relationships

Topic Area: Accounting processing cycle

Topic Area: Subsidiary ledgers and special journals

Blooms: Understand

AACSB: Reflective thinking

AICPA: BB Critical Thinking



## Chapter 2 Review of the Accounting Process

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

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

**Answer:**

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

Level of Learning: 1 Easy

Learning Objective: 02-01

Learning Objective: Appendix 2c

Topic Area: The basic model – Account relationships

Topic Area: Accounting processing cycle

Topic Area: Subsidiary ledgers and special journals

Blooms: Understand

AACSB: Reflective thinking

AICPA: BB Critical Thinking

## Chapter 2 Review of the Accounting Process

81. Listed below are 10 terms followed by a list of phrases that describe or characterize the terms. Match each phrase with the number for the correct term.

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

**Answer:**

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

Level of Learning: Medium

Learning Objective: 02-01

Learning Objective: 02-02

Learning Objective: 02-03

Learning Objective: 02-04

Learning Objective: 02-07

Topic Area: The basic model – Account relationships

## **Chapter 2 Review of the Accounting Process**

Topic Area: Record transactions in the general journal

Topic Area: Prepare an unadjusted trial balance

Topic Area: Adjusting entries – Identify types

Topic Area: The closing process

Blooms: Understand

AACSB: Reflective thinking

AICPA: BB Critical Thinking

## Chapter 2 Review of the Accounting Process

### Problems

Use the following to answer questions 82–93:

Below is a list of accounts in no particular order. Assume that all accounts have normal balances.

**Required:** In column A, indicate whether a debit will:

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

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

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

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

## Chapter 2 Review of the Accounting Process

### 82. Buildings and equipment (B&E)

**Answer:**

	Effect	Classification
Buildings and equipment (B&E)	1	2

Level of Learning: 2 Medium

Learning Objective: 02-02

Topic Area: Record transactions in the general journal

Blooms: Analyze

AACSB: Analytic

AICPA: FN Measurement

### 83. Short-term notes payable

**Answer:**

	Effect	Classification
Short-term notes payable	2	3

Level of Learning: 2 Medium

Learning Objective: 02-02

Topic Area: Record transactions in the general journal

Blooms: Analyze

AACSB: Analytic

AICPA: FN Measurement

### 84. Cost of goods sold

**Answer:**

	Effect	Classification
Cost of goods sold	1	7

Level of Learning: 2 Medium

Learning Objective: 02-02

Topic Area: Record transactions in the general journal

Blooms: Analyze

AACSB: Analytic

AICPA: FN Measurement

### 85. Accounts receivable

**Answer:**

	Effect	Classification
Accounts receivable	1	1

Level of Learning: 2 Medium

Learning Objective: 02-02

Topic Area: Record transactions in the general journal

Blooms: Analyze

AACSB: Analytic

AICPA: FN Measurement

## Chapter 2 Review of the Accounting Process

86. Inventory

**Answer:**

	Effect	Classification
Inventory	1	1

Level of Learning: 2 Medium

Learning Objective: 02-02

Topic Area: Record transactions in the general journal

Blooms: Analyze

AACSB: Analytic

AICPA: FN Measurement

87. Deferred revenues

**Answer:**

	Effect	Classification
Deferred revenues	2	3

Level of Learning: 2 Medium

Learning Objective: 02-02

Topic Area: Record transactions in the general journal

Blooms: Analyze

AACSB: Analytic

AICPA: FN Measurement

88. Property taxes payable

**Answer:**

	Effect	Classification
Property taxes payable	2	3

Level of Learning: 2 Medium

Learning Objective: 02-02

Topic Area: Record transactions in the general journal

Blooms: Analyze

AACSB: Analytic

AICPA: FN Measurement

89. Retained earnings

**Answer:**

	Effect	Classification
Retained earnings	2	5

Level of Learning: 2 Medium

Learning Objective: 02-02

Topic Area: Record transactions in the general journal

## Chapter 2 Review of the Accounting Process

Blooms: Analyze  
AACSB: Analytic  
AICPA: FN Measurement

90. Interest revenue

**Answer:**

	Effect	Classification
Interest revenue	2	6

Level of Learning: 2 Medium  
Learning Objective: 02-02  
Topic Area: Record transactions in the general journal  
Blooms: Analyze  
AACSB: Analytic  
AICPA: FN Measurement

91. Supplies expense

**Answer:**

	Effect	Classification
Supplies expense	1	7

Level of Learning: 2 Medium  
Learning Objective: 02-02  
Topic Area: Record transactions in the general journal  
Blooms: Analyze  
AACSB: Analytic  
AICPA: FN Measurement

92. Prepaid rent

**Answer:**

	Effect	Classification
Prepaid rent	1	1

Level of Learning: 2 Medium  
Learning Objective: 02-02  
Topic Area: Record transactions in the general journal  
Blooms: Analyze  
AACSB: Analytic  
AICPA: FN Measurement

93. Capital stock

**Answer:**

	Effect	Classification
Capital stock	2	5

Level of Learning: 2 Medium

## Chapter 2 Review of the Accounting Process

Learning Objective: 02-02

Topic Area: Record transactions in the general journal

Blooms: Analyze

AACSB: Analytic

AICPA: FN Measurement

Use the following to answer questions 94–108:

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



## Chapter 2 Review of the Accounting Process

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

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

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

**Answer:**

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

Level of Learning: 2 Medium

Learning Objective: 02-02

Topic Area: Record transactions in the general journal

Blooms: Apply

AACSB: Analytic

AICPA: FN Measurement

95. Invested idle cash in short-term money market funds.

**Answer:**

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

Level of Learning: 2 Medium

Learning Objective: 02-02

Topic Area: Record transactions in the general journal Blooms: Apply

AACSB: Analytic

AICPA: FN Measurement

96. Purchased inventory on account.

**Answer:**

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

Level of Learning: 2 Medium

## Chapter 2 Review of the Accounting Process

Learning Objective: 02-02

Topic Area: Record transactions in the general journal

Blooms: Apply

AACSB: Analytic

AICPA: FN Measurement

97. Sold inventory on account.

**Answer:**

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

Level of Learning: 2 Medium

Learning Objective: 02-02

Topic Area: Record transactions in the general journal

Blooms: Apply

AACSB: Analytic

AICPA: FN Measurement

98. Sold merchandise to a customer in exchange for a promissory note.

**Answer:**

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

Level of Learning: 2 Medium

Learning Objective: 02-02

Topic Area: Record transactions in the general journal

Blooms: Apply

AACSB: Analytic

AICPA: FN Measurement

99. Accrued the interest earned but not collected on notes receivable.

**Answer:**

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

Level of Learning: 2 Medium

Learning Objective: 02-05

Topic Area: Adjusting entries – Record and post

Blooms: Apply

AACSB: Analytic

AICPA: FN Measurement

## Chapter 2 Review of the Accounting Process

100. Collected a note receivable at maturity, including the interest that had already been accrued.

**Answer:**

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

Level of Learning: 2 Medium

Learning Objective: 02-02

Topic Area: Record transactions in the general journal

Blooms: Apply

AACSB: Analytic

AICPA: FN Measurement

101. Collected cash on account from customers.

**Answer:**

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

Level of Learning: 2 Medium

Learning Objective: 02-02

Topic Area: Record transactions in the general journal

Blooms: Apply

AACSB: Analytic

AICPA: FN Measurement

102. Sold inventory for cash.

**Answer:**

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

Level of Learning: 2 Medium

Learning Objective: 02-02

Topic Area: Record transactions in the general journal

Blooms: Apply

AACSB: Analytic

AICPA: FN Measurement

## Chapter 2 Review of the Accounting Process

103. Received payment for services to be performed next year.

**Answer:**

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

Level of Learning: 2 Medium

Learning Objective: 02-02

Topic Area: Record transactions in the general journal

Blooms: Apply

AACSB: Analytic

AICPA: FN Measurement

104. Salaries and wages have been earned but are unpaid at the end of an accounting period.

**Answer:**

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

Level of Learning: 2 Medium

Learning Objective: 02-05

Topic Area: Adjusting entries – Record and post

Blooms: Apply

AACSB: Analytic

AICPA: FN Measurement

105. Closed the income summary account, assuming there was a net income for the period.

**Answer:**

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

Level of Learning: 2 Medium

Learning Objective: 02-07

Topic Area: The closing process

Blooms: Apply

AACSB: Analytic

AICPA: FN Measurement

## Chapter 2 Review of the Accounting Process

106. Accrued property taxes were paid.

**Answer:**

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

Level of Learning: 2 Medium

Learning Objective: 02-02

Topic Area: Record transactions in the general journal

Blooms: Apply

AACSB: Analytic

AICPA: FN Measurement

107. Declared cash dividends on common stock.

**Answer:**

TRANSACTION	Account(s) debited	Account(s) credited	Transaction type
Declared cash dividends on common stock.	3200	2160	1

Level of Learning: 2 Medium

Learning Objective: 02-02

Topic Area: Record transactions in the general journal

Blooms: Apply

AACSB: Analytic

AICPA: FN Measurement

108. Paid rent for the next three months.

**Answer:**

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

Level of Learning: 2 Medium

Learning Objective: 02-02

Topic Area: Record transactions in the general journal

Blooms: Apply

AACSB: Analytic

AICPA: FN Measurement

## Chapter 2 Review of the Accounting Process

109. Rite Shoes was involved in the transactions described below.

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

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

**Answer:**

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

Level of Learning: 1 Easy

Learning Objective: 02-02

Topic Area: Record transactions in the general journal

Blooms: Apply

AACSB: Analytic

AICPA: FN Measurement

## Chapter 2 Review of the Accounting Process

110. Prepare journal entries to record the following transactions of Daisy King Ice Cream Company. If an entry is not required, state "No Entry."
1. Started business by issuing 10,000 shares of capital stock for \$20,000.
  2. Signed a franchise agreement to pay royalties of 5% of sales.
  3. Leased a building for three years at \$500 per month and paid six months' rent in advance.
  4. Purchased equipment for \$5,400, paying \$1,000 down and signing a two-year, 10% note for the balance.
  5. Purchased \$1,800 of supplies on account.
  6. Recorded cash sales of \$800 for the first week.
  7. Paid weekly salaries and wages, \$320.
  8. Paid for supplies purchased in item (5).
  9. Paid royalties due on first week's sales.
  10. Recorded depreciation on equipment, \$50.

**Answer:**

1.	Cash	20,000	
	Capital stock		20,000
2.	No Entry.		
3.	Prepaid rent	3,000	
	Cash		3,000
4.	Equipment	5,400	
	Cash		1,000
	Notes payable		4,400
5.	Supplies inventory	1,800	
	Accounts payable		1,800
6.	Cash	800	
	Sales revenue		800
7.	Salaries and wages expense	320	
	Cash		320
8.	Accounts payable	1,800	
	Cash		1,800
9.	Royalty expense	40	
	Cash		40
10.	Depreciation expense	50	
	Accumulated depreciation		50

Level of Learning: 2 Medium

Learning Objective: 02-02

Topic Area: Record transactions in the general journal

Blooms: Apply

AACSB: Analytic

AICPA: FN Measurement

## Chapter 2 Review of the Accounting Process

111. Flint Hills, Inc. has prepared a year-end 2016 trial balance. Certain accounts in the trial balance do not reflect all activities that have occurred.

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

1. The Supplies account shows a balance of \$540, but a count of supplies reveals only \$210 on hand.
2. Flint Hills initially records the payments of all insurance premiums as expenses. The trial balance shows a balance of \$420 in Insurance expense. A review of insurance policies reveals that \$125 of insurance is unexpired.
3. Flint Hills employees work Monday through Friday, and salaries of \$2,400 per week are paid each Friday. Flint Hills' year-end falls on Tuesday.
4. On December 31, 2016, Flint Hills received a utility bill for December electricity usage of \$190 that will be paid in early January.

**Answer:**

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

Level of Learning: 2 Medium

Learning Objective: 02-05

Topic Area: Adjusting entries – Record and post

Blooms: Apply

AACSB: Analytic

AICPA: FN Measurement



## Chapter 2 Review of the Accounting Process

112. The following is selected financial information for Osmond Dental Laboratories for 2015 and 2016:

	<u>2015</u>	<u>2016</u>
Retained earnings, January 1	\$53,000	?
Net income	37,000	42,000
Dividends declared and paid	15,000	18,000
Capital stock	70,000	?

Osmond issued 2,000 shares of additional capital stock in 2016 for \$20,000. There were no other capital transactions.

**Required:** Prepare a statement of shareholders' equity for Osmond Dental Laboratories for the year ended December 31, 2016.

**Answer:**

Osmond Dental Laboratories  
Statement of Shareholders' Equity  
For the Year Ended December 31, 2016

	<u>Capital Stock</u>	<u>Retained Earnings</u>	<u>Total Shareholders' Equity</u>
Balance, January 1, 2016	\$70,000	\$75,000*	\$145,000
Issue of capital stock	20,000		20,000
Net income for 2016		42,000	42,000
Less: Dividends		<u>- 18,000</u>	<u>- 18,000</u>
Balance, December 31, 2016	<u>\$ 90,000</u>	<u>\$ 99,000</u>	<u>\$189,000</u>

\*\$53,000 + 37,000 - 15,000 = \$75,000

Level of Learning: 3 Hard

Learning Objective: 02-06

Topic Area: Preparing the financial statements

Blooms: Apply

AACSB: Analytic

AICPA: FN Measurement

## Chapter 2 Review of the Accounting Process

113. The Yankel Corporation's controller prepares adjusting entries only at the end of the fiscal year. The following adjusting entries were prepared on December 31, 2016:

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

Additional information:

- The company borrowed \$30,000 on June 30, 2016. Principal and interest are due on June 30, 2017. This note is the company's only interest-bearing debt.
- Insurance for the year on the company's office buildings is \$90,000. The insurance is paid in advance.
- On August 31, 2016, Yankel lent money to a customer. The customer signed a note with principal and interest at 9% due in one year.

### Required:

Determine the following:

- What is the interest rate on the company's note payable?
- The 2016 insurance payment was made at the beginning of which month?
- How much did Yankel lend its customer on August 31?

### Answers:

- \$1,800 represents six months of interest on a \$30,000 note, or 50% of annual interest.  
 $\$1,800 \div .50 = \$3,600$  in annual interest  
 $\$3,600 \div \$30,000 = \mathbf{12\% \text{ interest rate}}$

Or,

Principal x Rate x Time = Interest

$\$30,000 \times \text{Rate} \times 6/12 = \$1,800$

$\$1,800 \div \$30,000 = .06$  six-month rate

To annualize the nine month rate:  $.06 \times 12/6 = .12$  or 12%

- $\$90,000 \div 12 \text{ months} = \$7,500$  per month in insurance  
 $\$60,000 \div \$7,500 = 8$  months expired. The insurance was paid on **May 1**, eight months ago.

- Principal x Rate x Time = Interest  
Principal x 9% x (4/12) = \$3,000  
Principal x 3% = \$3,000  
Principal = \$100,000

Or

\$3,000 represents four months (September through December) in accrued interest, or \$750 per month.

$\$750 \times 12 \text{ months} = \$9,000$  in annual interest

Principal x 9% = \$9,000

## Chapter 2 Review of the Accounting Process

$$\text{Principal} = \$9,000 \div .09 = \text{\$100,000 note}$$

Level of Learning: 3 Hard

Learning Objective: 02-04

Learning Objective: 02-05

Topic Area: Adjusting entries – Identify types

Topic Area: Adjusting entries – Record and post

Blooms: Apply

AACSB: Analytic

AICPA: FN Measurement

## Chapter 2 Review of the Accounting Process

Use the following to answer questions 114–118:

Suppose that Laramie Company's adjusted trial balance ignored the following information. For each item of information, indicate what effects, if any, these omissions would have on the stated components of Laramie Company's 2016 Income Statement and 12/31/16 Balance Sheet. Assume no income taxes.

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

N = No Effect  
O = Overstated  
U = Understated

114.

Additional Information	12/31/16 Assets	12/31/16 Liabilities	12/31/16 Owners' Equity	2016 Net Income
\$2,000 interest on a loan was not yet paid or recorded				

**Answer:**

Additional Information	12/31/16 Assets	12/31/16 Liabilities	12/31/16 Owners' Equity	2016 Net Income
\$2,000 interest on a loan was not yet paid or recorded	N	U 2,000	O 2,000	O2,000

Level of Learning: 2 Medium

Learning Objective: 02-05

Learning Objective: 02-06

Topic Area: Adjusting entries – Record and post

Topic area: Preparing the financial statements

Blooms: Analyze

AACSB: Analytic

AICPA: BB Critical Thinking

## Chapter 2 Review of the Accounting Process

115.

Additional Information	12/31/16 Assets	12/31/16 Liabilities	12/31/16 Owners' Equity	2016 Net Income
The estimated uncollectible accounts receivable is now zero and should be \$25,000.				

**Answer:**

Additional Information	12/31/16 Assets	12/31/16 Liabilities	12/31/16 Owners' Equity	2016 Net Income
The estimated uncollectible accounts receivable is now zero and should be \$25,000.	O25,000	N	O25,000	O25,000

Level of Learning: 2 Medium

Learning Objective: 02-05

Learning Objective: 02-06

Topic Area: Adjusting entries – Record and post

Topic area: Preparing the financial statements

Blooms: Analyze

AACSB: Analytic

AICPA: BB Critical Thinking

116.

Additional Information	12/31/16 Assets	12/31/16 Liabilities	12/31/16 Owners' Equity	2016 Net Income
\$10,000 of the paid and recorded rent expense pertains to the year 2017.				

**Answer:**

Additional Information	12/31/16 Assets	12/31/16 Liabilities	12/31/16 Owners' Equity	2016 Net Income
\$10,000 of the paid and recorded rent expense pertains to the year 2017.	U10,000	N	U10,000	U10,000

Level of Learning: 2 Medium

Learning Objective: 02-05

Learning Objective: 02-06

Topic Area: Topic area: Adjusting entries – Record and post

Topic area: Preparing the financial statements

Blooms: Analyze

AACSB: Analytic

AICPA: BB Critical Thinking

## Chapter 2 Review of the Accounting Process

117.

Additional Information	12/31/16 Assets	12/31/16 Liabilities	12/31/16 Owners' Equity	2016 Net Income
\$20,000 in depreciation on some equipment was still unrecorded.				

**Answer:**

Additional Information	12/31/16 Assets	12/31/16 Liabilities	12/31/16 Owners' Equity	2016 Net Income
\$20,000 in depreciation on some equipment was still unrecorded.	O20,000	N	O20,000	O20,000

Level of Learning: 2 Medium

Learning Objective: 02-05

Learning Objective: 02-06

Topic Area: Topic area: Adjusting entries – Record and post

Topic area: Preparing the financial statements

Blooms: Analyze

AACSB: Analytic

AICPA: BB Critical Thinking

118.

Additional Information	12/31/16 Assets	12/31/16 Liabilities	12/31/16 Owners' Equity	2016 Net Income
\$4,000 in cash dividends declared and paid in December 2016 were unrecorded.				

**Answer:**

Additional Information	12/31/16 Assets	12/31/16 Liabilities	12/31/16 Owners' Equity	2016 Net Income
\$4,000 in cash dividends declared and paid in December 2016 were unrecorded.	O4,000	N	O4,000	N

Level of Learning: 2 Medium

Learning Objective: 02-05

Learning Objective: 02-06

Topic Area: Adjusting entries – Record and post

Topic area: Preparing the financial statements

Blooms: Analyze

AACSB: Analytic

AICPA: BB Critical Thinking

## Chapter 2 Review of the Accounting Process

Use the following to answer questions 119–124:

You are reviewing O'Brian Co.'s adjusted trial balance for the year ended 12/31/16. You notice several omissions and incorrect items during your review, some of which are noted below. For each one, you are to determine what effect, if any, these items would have on the stated components of O'Brian Co.'s 2016 Income Statement and 12/31/16 Balance Sheet if they are not corrected or updated. Assume no income taxes.

Use the following code for your answers. You need not include any dollar amounts.

N = No Effect

O = Overstated

U = Understated

119.

Additional Information	12/31/16 Assets	12/31/16 Liabilities	12/31/16 Owners' Equity	2016 Net Income
Uncollectible accounts of \$7,000, as a percentage of sales, are estimated at the end of the year. The entry has not been recorded.				

**Answer:**

Additional Information	12/31/16 Assets	12/31/16 Liabilities	12/31/16 Owners' Equity	2016 Net Income
Uncollectible accounts of \$7,000, as a percentage of sales, are estimated at the end of the year. The entry has not been recorded.	O	N	O	O

Level of Learning: 2 Medium

Learning Objective: 02-05

Learning Objective: 02-06

Topic Area: Adjusting entries – Record and post

Topic area: Preparing the financial statements

Blooms: Analyze

AACSB: Analytic

AICPA: BB Critical Thinking

## Chapter 2 Review of the Accounting Process

120.

Additional Information	12/31/16 Assets	12/31/16 Liabilities	12/31/16 Owners' Equity	2016 Net Income
The journal entry for depreciation on equipment for 2016 was recorded for \$48,000. It should have been \$66,000.				

**Answer:**

Additional Information	12/31/16 Assets	12/31/16 Liabilities	12/31/16 Owners' Equity	2016 Net Income
The journal entry for depreciation on equipment for 2016 was recorded for \$48,000. It should have been \$66,000.	O	N	O	O

Level of Learning: 2 Medium

Learning Objective: 02-05

Learning Objective: 02-06

Topic Area: Adjusting entries – Record and post

Topic area: Preparing the financial statements

Bloom's: Analyze

AACSB: Analytic

AICPA: BB Critical Thinking

121.

Additional Information	12/31/16 Assets	12/31/16 Liabilities	12/31/16 Owners' Equity	2016 Net Income
Cash dividends declared and paid on December 15, 2016, were not recorded.				

**Answer:**

Additional Information	12/31/16 Assets	12/31/16 Liabilities	12/31/16 Owners' Equity	2016 Net Income
Cash dividends declared and paid on December 15, 2016, were not recorded.	O	N	O	N

Level of Learning: 3 Hard

Learning Objective: 02-05

Learning Objective: 02-06

Topic Area: Adjusting entries – Record and post

Topic area: Preparing the financial statements

Blooms: Analyze

AACSB: Analytic

AICPA: BB Critical Thinking



## Chapter 2 Review of the Accounting Process

122.

Additional Information	12/31/16 Assets	12/31/16 Liabilities	12/31/16 Owners' Equity	2016 Net Income
\$10,000 of the rent revenue collected and recorded as earned this year pertains to 2017.				

**Answer:**

Additional Information	12/31/16 Assets	12/31/16 Liabilities	12/31/16 Owners' Equity	2016 Net Income
\$10,000 of the rent revenue collected and recorded as earned this year pertains to 2017.	N	U	O	O

Level of Learning: 2 Medium

Learning Objective: 02-05

Learning Objective: 02-06

Topic Area: Adjusting entries – Record and post

Topic area: Preparing the financial statements

Blooms: Analyze

AACSB: Analytic

AICPA: BB Critical Thinking

123.

Additional Information	12/31/16 Assets	12/31/16 Liabilities	12/31/16 Owners' Equity	2016 Net Income
Interest earned during the year on a note receivable was not yet collected or recorded				

**Answer:**

Additional Information	12/31/16 Assets	12/31/16 Liabilities	12/31/16 Owners' Equity	2016 Net Income
Interest earned during the year on a note receivable was not yet collected or recorded	U	N	U	U

Level of Learning: 2 Medium

Learning Objective: 02-05

Learning Objective: 02-06

Topic Area: Adjusting entries – Record and post

Topic area: Preparing the financial statements

Blooms: Analyze

AACSB: Analytic

AICPA: BB Critical Thinking

## Chapter 2 Review of the Accounting Process

124.

Additional Information	12/31/16 Assets	12/31/16 Liabilities	12/31/16 Owners' Equity	2016 Net Income
Supplies purchased during the year for \$1,000 cash were recorded by a debit to Supplies Expense and a credit to Cash. Only \$200 of supplies remain at the end of the year, but no further entries have been recorded.				

**Answer:**

Additional Information	12/31/16 Assets	12/31/16 Liabilities	12/31/16 Owners' Equity	2016 Net Income
Supplies purchased during the year for \$1,000 cash were recorded by a debit to Supplies Expense and a credit to Cash. Only \$200 of supplies remain at the end of the year, but no further entries have been recorded.	U	N	U	U

Level of Learning: 3 Hard

Learning Objective: 02-05

Learning Objective: 02-06

Topic Area: Adjusting entries – Record and post

Topic area: Preparing the financial statements

Blooms: Analyze

AACSB: Analytic

AICPA: BB Critical Thinking

## Chapter 2 Review of the Accounting Process

Use the following to answer questions 125–127:

The adjusted trial balance for China Tea Company at December 31, 2016, is presented below:

	<u>Debit</u>	<u>Credit</u>
Cash	10,500	
Accounts receivable	150,000	
Prepaid rent	5,000	
Inventory	25,000	
Equipment	300,000	
Accumulated depreciation - equipment		125,000
Accounts payable		30,000
Notes payable - due in three months		30,000
Salaries payable		4,000
Interest payable		1,000
Capital stock		200,000
Retained earnings		50,000
Sales revenue		400,000
Costs of goods sold	180,000	
Salaries expense	120,000	
Rent expense	15,000	
Depreciation expense	30,000	
Interest expense	2,000	
Advertising expense	2,500	
Totals	<u>840,000</u>	<u>840,000</u>

125. Prepare the closing entries for China Tea Company for the year ended December 31, 2016.

**Answer:**

1.	Sales revenue	400,000	
	Income summary		400,000
2.	Income summary	349,500	
	Cost of goods sold		180,000
	Salaries expense		120,000
	Rent expense		15,000
	Depreciation expense		30,000
	Interest expense		2,000
	Advertising expense		2,500
3.	Income summary	50,500	
	Retained earnings		50,500

Level of Learning: 2 Medium

Learning Objective: 02-07

Topic Area: The closing process

Blooms: Apply

AACSB: Analytic

AICPA: FN Measurement

## Chapter 2 Review of the Accounting Process

126. Prepare an income statement for China Tea Company for the year ended December 31, 2016.

**Answer:**

<b>China Tea Company</b>		
<b>Income Statement</b>		
<b>For the Year Ended December 31, 2016</b>		
Sales revenue		\$400,000
Cost of goods sold		<u>180,000</u>
Gross profit		220,000
Other expenses:		
Salaries expense	\$120,000	
Rent expense	15,000	
Depreciation expense	30,000	
Interest expense	2,000	
Advertising expense	<u>2,500</u>	
Total other expenses		<u>169,500</u>
Net income		<u>\$ 50,500</u>

Level of Learning: 2 Medium

Learning Objective: 02-06

Topic Area: Preparing the financial statements

Blooms: Apply

AACSB: Analytic

AICPA: FN Measurement

## Chapter 2 Review of the Accounting Process

127. Prepare a classified balance sheet for China Tea Company as of December 31, 2016.

**Answer:**

**China Tea Company  
Balance Sheet  
At December 31, 2016**

**Assets**

Current assets:

Cash		\$ 10,500
Accounts receivable		150,000
Inventory		25,000
Prepaid rent		<u>5,000</u>
Total current assets		190,500

Property and equipment:

Equipment	300,000	
Less: Accumulated depreciation	<u>125,000</u>	<u>175,000</u>
Total assets		<u><u>\$365,500</u></u>

**Liabilities and Shareholders' Equity**

Current liabilities:

Accounts payable	\$ 30,000
Notes payable	30,000
Salaries payable	4,000
Interest payable	<u>1,000</u>
Total current liabilities	65,000

Shareholders' equity:

Capital stock	\$200,000
Retained earnings	<u>100,500</u>
Total shareholders' equity	<u>300,500</u>
Total liabilities and shareholders' equity	<u><u>\$365,500</u></u>

Level of Learning: 2 Medium

Learning Objective: 02-06

Topic Area: Preparing the financial statements

Blooms: Apply

AACSB: Analytic

AICPA: FN Measurement

## Chapter 2 Review of the Accounting Process

Use the following to answer questions 128–129:

The following information, based on the 12/31/16 Annual Report to Shareholders of Krafty Foods (\$ in millions):

Accounts payable	1,897
Accounts receivable (net)	3,131
Accrued liabilities and taxes	4,105
Cash and cash equivalents	162
Cost of sales	17,531
Current payables to parent and affiliates	1,652
Current portion of long-term debt	540
Deferred income taxes and other liabilities	10,311
Earnings retained in the business as of 12/31/16	2,391
Goodwill and other intangible assets (net)	35,957
Income tax expense	1,565
Interest and other debt expense, net	1,437
Inventories	3,026
Long-term debt	8,134
Long-term notes payable to parent and affiliates	5,000
Marketing, general and administration expenses	11,460
Operating revenues	33,875
Other current assets	687
Other noncurrent assets	3,726
Other stockholders' equity	(2,568)
Paid-in capital for common and preferred stock	23,655
Property, plant and equipment (net)	9,109
Short-term borrowings	681

128. Based on the information presented above, prepare the 2016 Income Statement for Krafty Foods.

**Answer:**

<b>Krafty Foods</b>	
<b>Income Statement</b>	
<b>For the Year Ended December 31, 2016</b>	
(\$ in millions)	
Operating revenues	\$33,875
Cost of sales	<u>17,531</u>
Gross profit	16,344
Marketing, general and administration Expenses	<u>11,460</u>
Operating income	4,884
Interest and other debt expense, net	<u>1,437</u>
Income before taxes	3,447
Income tax expense	<u>1,565</u>
Net income	<u>\$ 1,882</u>

Level of Learning: 2 Medium

## Chapter 2 Review of the Accounting Process

Learning Objective: 02-06

Topic Area: Preparing the financial statements

Blooms: Apply

AACSB: Analytic

AICPA: FN Measurement

129. Based on the information presented above, prepare the 12/31/16 Balance Sheet for Krafty Foods.

**Answer:**

**Krafty Foods  
Balance Sheet  
At December 31, 2016**

(\$ in millions)

**Assets**

Cash and cash equivalents	\$ 162
Accounts receivable (net)	3,131
Inventories	3,026
Other current assets	<u>687</u>
Total current assets	7,006
Property, plant and equipment (net)	9,109
Goodwill and other intangible assets (net)	35,957
Other noncurrent assets	<u>3,726</u>
Total assets	<u><u>\$55,798</u></u>

**Liabilities and Shareholders' Equity**

Accounts payable	\$ 1,897
Accrued liabilities and taxes	4,105
Short-term borrowings	681
Current payables to parent and affiliates	1,652
Current portion of long-term debt	<u>540</u>
Total current liabilities	8,875
Long-term debt	8,134
Deferred income taxes and other liabilities	10,311
Long-term notes payable to parent and affiliates	<u>5,000</u>
Total liabilities	32,320
Paid-in capital for common and preferred stock	\$23,655
Earnings retained in the business	2,391
Other stockholders' equity	<u>(2,568)</u>
Total stockholders' equity	<u>23,478</u>
Total liabilities and stockholders' equity	<u><u>\$55,798</u></u>

Level of Learning: 2 Medium

Learning Objective: 02-06

Topic Area: Preparing the financial statements

Blooms: Apply

AACSB: Analytic

AICPA: FN Measurement

## **Chapter 2 Review of the Accounting Process**



## Chapter 2 Review of the Accounting Process

Use the following to answer questions 130–133:

The December 31, 2016 (pre-closing) adjusted trial balance for Kline Enterprises was as follows:

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

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

130. Kline's 2016 net income (or loss):

**Answer:**

Kline's 2016 net income (or loss) = \$76,000

Computation:  $770,000 - 480,000 - 60,000 - 4,000 - 30,000 - 120,000$

Level of Learning: 2 Medium

Learning Objective: 02-06

Topic Area: Preparing the financial statements

Blooms: Apply

AACSB: Analytic

AICPA: FN Measurement

131. Kline's 12/31/16 total current assets:

**Answer:**

Kline's 12/31/16 total current assets = \$346,000

Computation:  $26,000 + 170,000 + 150,000$

Level of Learning: 2 Medium

Learning Objective: 02-06

Topic Area: Preparing the financial statements

Blooms: Apply

## Chapter 2 Review of the Accounting Process

AACSB: Analytic  
AICPA: FN Measurement

132. Kline's 12/31/16 total current liabilities:

**Answer:**

Kline's 12/31/16 total current liabilities = \$158,000  
Computation:  $90,000 + 60,000 + 8,000$

Level of Learning: 2 Medium  
Learning Objective: 02-06  
Topic Area: Preparing the financial statements  
Blooms: Apply  
AACSB: Analytic  
AICPA: FN Measurement

133. Kline's 12/31/16 total shareholders' equity:

**Answer:**

Kline's 12/31/16 total owners' equity = \$628,000  
Computation:  $490,000 + 62,000 + \$76,000$  (Net Income), (or Total Assets – Total Liabilities)

Level of Learning: 2 Medium  
Learning Objective: 02-06  
Topic Area: Preparing the financial statements  
Blooms: Apply  
AACSB: Analytic  
AICPA: FN Measurement

## Chapter 2 Review of the Accounting Process

134. Presented below is income statement information of the Nebraska Corporation for the year ended December 31, 2016.

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

**Required:**

Prepare the necessary closing entries at December 31, 2016.

Answer:

**December 31, 2016**

Sales revenue.....	620,000	
Dividend revenue.....	3,000	
Loss on sale of investments .....		8,000
Income summary.....		615,000
Income summary.....	540,000	
Salaries expense.....		90,000
Miscellaneous expense.....		12,000
Cost of goods sold.....		355,000
Insurance expense.....		20,000
Depreciation expense.....		18,000
Income tax expense.....		35,000
Rent expense .....		10,000
Income summary (\$615,000 – 540,000).....	75,000	
Retained earnings .....		75,000

Level of Learning: 2 Medium

Learning Objective: 02-07

Topic Area: The closing process

Blooms: Apply

AACSB: Analytic

AICPA: FN Measurement

## Chapter 2 Review of the Accounting Process

135. Raintree Corporation maintains its records on a cash basis. At the end of each year the company's accountant obtains the necessary information to prepare accrual basis financial statements. The following cash flows occurred during the year ended December 31, 2016:

Cash receipts:

From customers	\$450,000
Interest on note	3,000
Issue of common stock	<u>50,000</u>
Total cash receipts	<u>\$503,000</u>

Cash disbursements:

Purchase of merchandise	\$220,000
Annual insurance payment	9,000
Payment of salaries	180,000
Dividends paid to shareholders	6,000
Annual rent payment	<u>12,000</u>
Total cash disbursements	<u>\$427,000</u>

Selected balance sheet information:

	<u>12/31/15</u>	<u>12/31/16</u>
Cash	\$25,000	\$101,000
Accounts receivable	42,000	70,000
Inventory	60,000	82,000
Prepaid insurance	2,000	?
Prepaid rent	7,000	?
Interest receivable	1,500	?
Note receivable	50,000	50,000
Equipment	150,000	150,000
Accumulated depreciation—equipment	(40,000)	(55,000)
Accounts payable (for merchandise)	50,000	62,000
Salaries payable	20,000	28,000
Common stock	200,000	250,000

Additional information:

1. On June 30, 2015, Raintree lent a customer \$50,000. Interest at 6% is payable annually on each June 30. Principal is due in 2019.
2. The annual insurance payment is made in advance on March 31.
3. Annual rent on the company's facilities is paid in advance on September 30.

**Required:**

1. Prepare an accrual basis income statement for 2016 (ignore income taxes).
2. Determine the following balance sheet amounts on December 31, 2016:
  - a. Interest receivable
  - b. Prepaid insurance
  - c. Prepaid rent

## Chapter 2 Review of the Accounting Process

### Answers:

#### 1. Sales revenue:

Cash collected from customers	\$450,000
Add: Increase in accounts receivable	<u>28,000</u>
Sales revenue	<u>\$478,000</u>

#### Interest revenue:

Cash received	\$3,000
Add: Amount accrued at the end of 2016 ( $\$50,000 \times .06 \times 6/12$ )	1,500 (a)
Deduct: Amount accrued at the end of 2012	<u>(1,500)</u>
Interest revenue	<u>\$3,000</u>

#### Cost of goods sold:

Cash paid for merchandise	\$220,000
Add: Increase in accounts payable	<u>12,000</u>
Purchases during 2016	232,000
Deduct: Increase in inventory	<u>(22,000)</u>
Cost of goods sold	<u>\$210,000</u>

#### Insurance expense:

Cash paid	\$9,000
Add: Prepaid insurance expired during 2012	2,000
Deduct: Prepaid insurance on 12/31/16 ( $\$9,000 \times 3/12$ )	<u>(2,250) (b)</u>
Insurance expense	<u>\$8,750</u>

#### Salaries expense:

Cash paid	\$180,000
Add: Increase in salaries payable	<u>8,000</u>
Salaries expense	<u>\$188,000</u>

#### Rent expense:

Amount paid	\$12,000
Add: Prepaid rent on 12/31/12 expired during 2016	7,000
Deduct: Prepaid rent on 12/31/16 ( $\$12,000 \times 9/12$ )	<u>(9,000) (c)</u>
Rent expense	<u>\$10,000</u>

#### Depreciation expense: Increase in accumulated depreciation

\$15,000

## Chapter 2 Review of the Accounting Process

**Raintree Corporation**  
**Income statement**  
**For the Year Ended December 31, 2016**

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

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

Level of Learning: 3 Hard

Learning Objective: 02-08

Topic Area: Conversion from cash basis to accrual basis

Blooms: Apply

AACSB: Analytic

AICPA: FN Measurement

## Chapter 2 Review of the Accounting Process

136. Silicon Chip Company's fiscal year-end is December 31. At the end of 2016, it owed employees \$22,000 in salaries and wages that will be paid on January 7, 2017.

### Required:

1. Prepare an adjusting entry to record accrued salaries and wages, a reversing entry on January 1, 2017, and an entry to record the payment of salaries and wages on January 7, 2017.
2. Prepare journal entries to record the accrued salaries and wages on December 31 and the payment of salaries and wages on January 7, assuming a reversing entry is not recorded.

### Answers:

1.			
December 31 - adjusting entry			
Salaries and wages expense .....	22,000		
Salaries and wages payable.....		22,000	
January 1 - reversing entry			
Salaries and wages payable.....	22,000		
Salaries and wages expense.....			22,000
January 7 - payment of salaries and wages			
Salaries and wages expense.....	22,000		
Cash.....			22,000
2.			
December 31 - adjusting entry			
Salaries and wages expense.....	22,000		
Salaries and wages payable.....		22,000	
January 7 - payment of salaries and wages			
Salaries and wages payable.....	22,000		
Cash.....			22,000

Level of Learning: 3 Hard

Learning Objective: Appendix 2B

Topic Area: Reversing entries

Blooms: Apply

AACSB: Analytic

AICPA: FN Measurement

## Chapter 2 Review of the Accounting Process

### Essay

The following answers point out the key phrases that should appear in students' answers. They are not intended to be examples of complete student responses. It might be helpful to provide detailed instructions to students on how brief or in-depth you want their answers to be.

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

**Answer:**

External events involve an **exchange** between the **company** and a **separate economic entity**. Examples include purchasing inventory on account or borrowing money from a bank. Internal events directly affect the financial position of the company but **do not involve exchange transactions with another entity**. Examples include depreciation of equipment or use of supplies.

Level of Learning: 2 Medium

Learning Objective: 02-01

Topic Area: The basic model

Blooms: Understand

AACSB: Reflective thinking

AICPA: BB Critical Thinking

138. Describe what is meant by deferred revenues and provide two examples.

**Answer:**

Deferred revenues are created when a company **receives cash** from a customer for **goods or services** that will be **provided in a future period**. Examples include magazine subscriptions received in advance by a publishing firm or rent received in advance by a property leasing firm. A liability exists because of the obligation to provide the service.

Level of Learning: 2 Medium

Learning Objective: 02-01

Learning Objective: 02-04

Topic Area: The basic model – Account relationships

Topic Area: Adjusting entries – Identify types

Blooms: Understand

AACSB: Reflective thinking

AICPA: BB Critical Thinking

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

**Answer:**

Prepaid expenses represent **assets** recorded when a **cash disbursement** creates **benefits beyond the current period**. Examples include insurance or rent paid in advance of use.

Level of Learning: 2 Medium

Learning Objective: 02-01

Learning Objective: 02-04

Topic Area: The basic model – Account relationships



## Chapter 2 Review of the Accounting Process

Topic Area: Adjusting entries – Identify types

Blooms: Understand

AACSB: Reflective thinking

AICPA: BB Critical Thinking

140. What is an accrued liability?

**Answer:**

An accrued liability results from an **expense** being **incurred prior to cash payment**.

Examples include interest and salaries and wages payable.

Level of Learning: 2 Medium

Learning Objective: 02-04

Topic Area: Adjusting entries – Identify types

Blooms: Remember

AACSB: Reflective thinking

AICPA: BB Critical Thinking

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

**Answer:**

Permanent accounts represent assets, liabilities, and shareholders' equity **at a point in time**.

Temporary accounts represent **changes in retained earnings** caused by dividend, revenue, expense, and gain and loss accounts. The temporary accounts are closed out annually to facilitate measuring income on an annual basis. Temporary accounts are a convenience to aid the preparation of financial statements by recording revenues and expenses in these accounts rather than directly into retained earnings.

Level of Learning: 2 Medium

Learning Objective: 02-01

Topic Area: Topic Area: The basic model – Account relationships

Blooms: Understand

AACSB: Reflective thinking

AICPA: BB Critical Thinking

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

**Answer:**

The purpose of the statement of cash flows is to **summarize the transactions** that caused **cash to change** during the reporting period. The statement of cash flows summarizes cash flows in three categories: **operating, investing, and financing**. Operating activities include cash flows related to transactions entering into the determination of net income, such as cash collections from customers, payments for purchases, and other receipts, such as interest and dividends. Investing activities include purchasing and selling equipment or certain investment securities. Financing activities include borrowing or repaying loans, issuing stock, and payment of dividends.

Level of Learning: 3 Hard

Learning Objective: 02-06

Topic Area: Preparing the financial statements

Blooms: Understand

## Chapter 2 Review of the Accounting Process

AACSB: Reflective thinking  
AICPA: BB Critical Thinking

143. What is the purpose of the closing process?

**Answer:**

The closing process serves a dual purpose: (1) the **temporary accounts are reduced to a zero balance**, ready to measure activity in the next accounting period, and (2) the **balances** of these temporary accounts are **transferred to retained earnings** to reflect the changes that have occurred in that account during the period. Revenue and expense accounts are first transferred to income summary. The net balance in income summary is then transferred to retained earnings.

Level of Learning: 2 Medium  
Learning Objective: 02-07  
Topic Area: The closing process  
Blooms: Understand  
AACSB: Reflective thinking  
AICPA: BB Critical Thinking

144. Claymore Corporation maintains its book on a cash basis. During 2016, the company collected \$825,000 in fees from its clients and paid \$512,000 in expenses. You are able to determine the following information about accounts receivable, supplies, prepaid rent, salaries payable, and interest payable:

	<u>January 1, 2016</u>	<u>December 31, 2016</u>
Accounts receivable	\$110,000	\$120,000
Supplies	15,000	18,000
Prepaid rent	12,000	11,000
Salaries and wages payable	16,500	14,200
Interest payable	4,000	5,500

In addition, 2016 depreciation expense on office equipment and furniture is \$55,000.

**Required:**

Determine accrual basis income for 2016.

**Answer:**

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

Level of Learning: 3 Hard

## Chapter 2 Review of the Accounting Process

Learning Objective: 02-08

Topic Area: Conversion from cash basis to accrual basis

Blooms: Apply

AACSB: Analytic

AICPA: FN Measurement

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

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

**Answer:**

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

## **Chapter 2 Review of the Accounting Process**

Level of Learning: 2 Medium

Learning Objective: Appendix 2C

Topic Area: Subsidiary ledgers and special journals

Blooms: Understand

AACSB: Reflective thinking

AICPA: FN Measurement