

Chapter 02

Understanding the Accounting Cycle

Multiple Choice Questions

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

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

- A. Choice A
B. Choice B
C. Choice C
D. Choice D
2. ABC Company experienced an accounting event that affected its financial statements as indicated below:

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

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

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

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

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

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

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

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

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

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

6. Which of the following events involves an accrual?

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

7. The entry to recognize salary expense incurred but not yet paid involves which of the following?
- A. an increase in liabilities
 - B. an increase in assets
 - C. a decrease in assets
 - D. an increase in equity
8. The Greenwood Company purchased equipment costing \$900. Greenwood paid \$400 in cash and agreed to pay the remaining amount in thirty days. As a result of this transaction:
- A. total assets increased by \$400.
 - B. liabilities increased by \$500.
 - C. total assets increased by \$900.
 - D. both B and C.
9. Sefcik Company purchased supplies on account. Which of the following choices accurately reflects how this event would affect the company's financial statements?

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

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

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

	Assets	=	Liab.	+	Equity	Rev.	-	Exp.	=	Net Inc.	Cash Flow	
A)	+	-	=	NA	+	NA	NA	-	+	=	-	NA
B)	-	=	NA	+	-	NA	-	+	=	-	NA	NA
C)	-	=	-	+	NA	NA	-	NA	=	NA	NA	NA
D)	+	-	=	NA	+	NA	NA	-	NA	=	NA	+ 1A

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

11. Stahl Company paid \$7,800 on May 1, 2012 for insurance coverage for a one year period beginning that date. The adjusting entry required to recognize insurance expense on December 31, 2012 would have what effect on the financial statements?

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

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

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

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

13. Which of the following transactions involves a deferral?

- A. recording the prepayment of three months' rent
- B. recording the interest earned (but not received) on a certificate of deposit
- C. recording interest accrued on a note payable
- D. recording salaries of employees earned but not yet paid

14. Which of the following does not involve a deferral?

- A. receipt of advance fees from clients
- B. recording salaries of employees earned but not yet paid
- C. payment of six months' rent
- D. purchase of supplies on account

15. The adjustment to record the completion of services for which clients had paid in advance would involve which of the following?

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

16. If a company purchases supplies on account, this transaction would cause

- A. total assets to decrease.
- B. liabilities to increase.
- C. equity to decrease.
- D. Retained Earnings to increase.

17. On May 1, 2012, Perez Company paid \$12,000 rent for a one year lease on equipment it uses in its operations. The adjusting entry at the end of the year

- A. decreases assets and stockholders' equity.
- B. decreases assets and liabilities.
- C. increases an expense and decreases a liability.
- D. is not required.

18. The following selected account balances were drawn from the 2012 balance sheet and income statement of Fultz Company:

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

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

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

19. Dale Company purchased land costing \$2,400 by paying cash. The company earned \$2,000 revenue on account and incurred \$1,100 of operating expenses on account. As a result of these transactions:

- A. total assets increased by \$2,400.
- B. liabilities increased by \$1,100.
- C. total assets increased by \$5,400.
- D. both A and B.

20. Bloomfield Company issued stock for \$30,000 cash on January 20, 2012. During 2012, the company recorded revenue on account of \$12,000 and expenses on account of \$5,500. Bloomfield received \$8,200 cash from accounts receivable and paid \$4,500 on the accounts payable. The company also purchased land for \$5,000 cash. The beginning cash balance was zero. Based on this information, the amount of cash at the end of the year is:

- A. \$31,500
- B. \$22,974
- C. \$29,100
- D. \$28,700

21. Nikonowicz Enterprises experienced the following events during 2012, its first year in operation:

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

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

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

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

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

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

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

Based on this information, the amount of retained earnings as of December 31, 2012, was

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

22. Jaycox Company received \$1,000 cash from the issue of stock on January 1, 2012. During 2012 the Jaycox Company earned \$3,500 of revenue on account. The company collected \$2,400 cash from accounts receivable and paid \$3,000 cash for operating expenses. Based on this information alone:

- A. total assets increased by \$1,500.
- B. total assets decreased by \$3,500.
- C. total assets increased by \$2,400.
- D. total assets did not change.

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

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

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

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

Nez Company provided services for \$7,500 cash during the 2012 accounting period. Nez incurred \$6,000 expenses on account during 2012, and by the end of the year, \$3,000 of that amount had been paid with cash. Nez paid dividends of \$900 to stockholders during the year. Assume that these are the only accounting events that affected Nez during the 2012 accounting period.

24. What was the amount of Nez's net income for 2012?

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

25. What was Nez's cash flow from operating activities for 2012?

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

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

26. Grace's net income was:

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

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

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

The following accounts and balances were drawn from the records of Rayburn Company on December 31, 2012:

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

28. Total assets on the December 31, 2012 balance sheet amounted to

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

29. The amount of net income shown on the December 31, 2012 income statement would amount to:

- A. \$550.
- B. \$800.
- C. \$50.
- D. \$250.

30. Which of the following accounts would not appear on a balance sheet?

- A. Equipment
- B. Interest Payable
- C. Interest Revenue
- D. Retained Earnings

31. Which of the following would be included in the "cash flows from investing activities" section of the statement of cash flows?

- A. Borrowed \$10,000 from a local bank.
- B. Paid \$1,000 of expenses with cash.
- C. Sold land for cash.
- D. Issued common stock for cash.

32. Which of the following would be included in the "cash flows from financing activities" section of the statement of cash flows?

- A. Collected cash from accounts receivable.
- B. Loaned cash to another company.
- C. Paid cash dividend to stockholders.
- D. Purchased insurance.

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

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

34. Which of the following financial statement elements is closed at the end of an accounting cycle?

- A. Liabilities
- B. Equity
- C. Revenues
- D. Assets

35. Which of the following accounts would not be closed at the end of an accounting cycle?

- A. Common Stock
- B. Revenue
- C. Dividends
- D. Salaries Expense

36. The matching concept refers to the "matching" of:

- A. expenses and liabilities
- B. expenses and revenues
- C. assets and equity
- D. assets and liabilities

37. The result of the matching process is reported on which financial statement?

- A. Balance Sheet
- B. Income Statement
- C. Statement of Changes in Stockholders' Equity
- D. Statement of Cash Flows

38. Expenses that are matched with the period in which they are incurred are frequently called:

- A. period costs.
- B. matched expenses.
- C. market expenses.
- D. working costs.

39. Which of the following lists represents the correct sequence of stages in an accounting cycle?

- A. record transactions, prepare statements, adjust accounts, close temporary accounts
- B. prepare statements, close temporary accounts, record transactions, adjust accounts
- C. close temporary accounts, record transactions, prepare statements, adjust accounts
- D. record transactions, adjust accounts, prepare statements, close temporary accounts

40. The purpose of the accrual basis of accounting is to:

- A. report revenue when received.
- B. improve the matching of revenue and expense in the proper period.
- C. report expenses when cash disbursements are made.
- D. improve the company's earnings per share.

41. Which of the following accounts is a permanent account (an account that is not closed)?

- A. Rent Expense
- B. Service Revenue
- C. Dividends
- D. Prepaid Insurance

42. Which of the following accounts is a temporary account?

- A. Prepaid Insurance
- B. Unearned Subscriptions Revenue
- C. Retained Earnings
- D. Subscription Revenue

43. The conservatism principle

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

44. Which of the following would cause net income on the accrual basis to be different than (either higher or lower than) cash provided by operating activities on the statement of cash flows?

- A. acquiring \$10,000 cash from the owners
- B. incurring operating expenses on account
- C. providing services to a customer for cash
- D. purchasing land for cash

45. Harrison and Sons is a law firm. On September 1, 2012, Harrison contracted to provide 12 months of legal services to a client. On that date, Harrison collected a \$36,000 retainer and began providing services. How much revenue would Harrison report from that client for the year ending December 31, 2012?

- A. \$36,000
- B. \$12,000
- C. \$9,000
- D. \$15,000

The Blumer Company entered into the following transactions during 2012:

1. The company was started with \$22,000 of common stock issued to investors for cash.
 2. On July 1, the company purchased land that cost \$15,500 cash.
 3. There were \$700 of supplies purchased on account.
 4. Sales on account amounted to \$9,500.
 5. Cash collections of receivables were \$5,500.
 6. On October 1, 2012, the company paid \$3,600 in advance for a 12-month insurance policy that became effective on October 1.
 7. Supplies on hand as of December 31, 2010 amounted to \$225.
46. The adjusting entry necessary to record the supplies expense would result in a:
- A. \$700 increase in assets and liabilities.
 - B. \$700 decrease in assets and equity.
 - C. \$475 decrease in assets and equity.
 - D. \$475 increase in assets and liabilities.
47. The amount of insurance expense reported on the income statement for 2012 would be:
- A. \$900.
 - B. \$2,400.
 - C. \$300.
 - D. \$600.
48. The amount of cash flow from operating activities would be:
- A. \$1,900.
 - B. \$8,400.
 - C. \$3,100.
 - D. \$5,400.

49. The amount of total liabilities appearing on the December 31, 2012 balance sheet would be:

- A. \$3,600.
- B. \$4,000.
- C. \$475.
- D. \$700.

LeMars Company signed a three year contract to perform consulting services for a local manufacturer on September 1, 2012. LeMars received \$48,000 cash as an advance payment for these services and agreed the work would begin immediately.

50. The amounts of revenue that would appear on the 2012 and 2013 income statements would be:

- A. \$16,000/\$16,000.
- B. \$48,000/\$-0-.
- C. \$5,333/\$16,000.
- D. \$5,833/\$29,187.

51. The amounts of cash flow that would be on the 2012 and 2013 statements of cash flows would be:

- A. \$16,000/\$16,000.
- B. \$-0-/\$48,000.
- C. \$11,667/\$11,667.
- D. \$48,000/\$-0-

52. Jones Company started the accounting period with \$500 in supplies. During the period the company purchased \$1,100 of supplies on account. At the end of the accounting period there were \$700 of supplies on hand. Based on this information, the amount of supplies expense appearing on the end-of-period income statement would be

- A. \$1,600.
- B. \$1,100.
- C. \$900.
- D. \$400.

53. Which of the following is an asset source transaction?

- A. Purchased machine by issuing a note payable
- B. Paid a cash dividend to stockholders
- C. Purchased equipment for cash
- D. Collected cash from an account receivable

54. Which of the following is an asset exchange transaction?

- A. Borrowed cash from a local bank.
- B. Incurred expenses on account.
- C. Recognized accrued salaries expense.
- D. Paid cash to purchase land.

55. A transaction that increases cash and increases notes payable is a/an

- A. claims exchange transaction.
- B. asset source transaction.
- C. asset use transaction.
- D. asset exchange transaction.

56. A transaction that decreases cash and decreases notes payable is a/an

- A. claims exchange transaction.
- B. asset source transaction.
- C. asset use transaction.
- D. asset exchange transaction.

57. The recognition of an expense may be accompanied by which of the following?

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

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

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

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

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

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

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

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

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

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

True / False Questions

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

True False

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

True False

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

True False

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

True False

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

True False

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

True False

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

True False

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

True False

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

True False

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

True False

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

True False

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

True False

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

True False

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

True False

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

True False

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

True False

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

True False

79. The collection of an account receivable is a claims exchange transaction.

True False

80. Providing services to customers on account is an asset source transaction.

True False

81. An adjusting entry that decreases Unearned Service Revenue and increases Service Revenue is a claims exchange transaction.

True False

82. Revenue is the economic benefit derived from operating a business.

True False

83. Often, the recognition of revenue is accompanied by an increase in liabilities.

True False

Matching Questions

84. Classify each of the following costs as an asset or expense.

- | | | |
|------------|---|-------|
| 1. Asset | Paid advertising for the current month. | _____ |
| 2. Expense | Used supplies to generate revenue. | _____ |
| 3. Asset | Purchased a building with cash. | _____ |
| 4. Expense | Paid two years rent in advance. | _____ |

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

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

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

1. Paid cash to settle accounts payable	not reported on the statement of cash flows _____
2. Issued common stock for \$30,000 cash	financing activities _____
3. Collected accounts receivable	operating activities _____
4. Borrowed funds from the bank	operating activities _____
5. Paid cash to acquire land	financing activities _____
6. Paid rent for the month	operating activities _____
7. Made adjusting entry to accrue salary expense at the end of the year	investing activities _____

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

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

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

Transactions for the year:

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

Short Answer Questions

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

Increase = I Decrease = D No Effect = N

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

Assets	Liabilities	Equity	Revenues	Expenses	Net Income	Cash Flow

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

Assets	Liabilities	Equity	Revenues	Expenses	Net Income	Cash Flow

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

Assets	Liabilities	Equity	Revenues	Expenses	Net Income	Cash Flow

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

Assets	Liabilities	Equity	Revenues	Expenses	Net Income	Cash Flow

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

Assets	Liabilities	Equity	Revenues	Expenses	Net Income	Cash Flow

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

Assets	Liabilities	Equity	Revenues	Expenses	Net Income	Cash Flow

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

Assets	Liabilities	Equity	Revenues	Expenses	Net Income	Cash Flow

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

Assets	Liabilities	Equity	Revenues	Expenses	Net Income	Cash Flow

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

Assets	Liabilities	Equity	Revenues	Expenses	Net Income	Cash Flow

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

Assets	Liabilities	Equity	Revenues	Expenses	Net Income	Cash Flow

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

Assets	Liabilities	Equity	Revenues	Expenses	Net Income	Cash Flow

100. On December 1, 2012, Hays Company prepaid rent for three months in the amount of \$1,500. On December 31, Hays prepared an adjusting entry to recognize \$500 of rent expense. Show the effect of the adjusting entry.

Assets	Liabilities	Equity	Revenues	Expenses	Net Income	Cash Flow

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

Assets	Liabilities	Equity	Revenues	Expenses	Net Income	Cash Flow

102. On October 1, 2012, Gruene Company received \$1,200 cash in advance for 12 months of magazine subscriptions. On December 31, 2012, Gruene made the adjusting entry showing that three months of magazines had been provided to subscribers. Show the effect of the adjustment on the financial statements.

Assets	Liabilities	Equity	Revenues	Expenses	Net Income	Cash Flow

Essay Questions

103. What is the purpose of adjusting entries?

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

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

106.What is unearned revenue? Give an example.

107.What type of account is Unearned Revenue?

108.What type of account is Prepaid Rent?

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

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

111. What is a deferral?

112. When is revenue recognized under accrual accounting?

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

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

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

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

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

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

119.What type of account is Salaries Payable?

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

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

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

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

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

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

125.What is "Retained Earnings?"

126.What is the purpose of the closing process?

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

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

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

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

131. How does conservatism affect revenue recognition?

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

133. On December 31, 2012, Detroit Co. paid \$6,000 cash for insurance coverage for the year 2013. What is the effect of this transaction on the financial statements for the 2012 reporting period?

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

135. Give an example of a claims exchange transaction.

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

- a) At January 1, 2012, the amount of accounts receivable was \$20,000. Cash collected on accounts receivable during the year was \$75,000. At December 31, 2012, the amount of accounts receivable was \$30,000. What were the revenues earned on account during 2012?
- b) At January 1, 2012, accounts payable was \$17,000. During 2012, expenses on account were \$28,000. At December 31, 2012, accounts payable was \$15,000. What was the amount of cash paid on accounts payable during 2012?
- c) At January 1, 2012, the balance in the Retained Earnings account was \$7,200. During the year, revenue earned was \$19,800 and expenses incurred were \$7,400. At December 31, 2012, the balance in the retained earnings account was \$14,200. What was the amount of cash dividends paid to stockholders during 2012?

137. The following events apply to San Antonio Company for 2012.

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

Required:

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

Accounting Equation

Event No.	
1)	
2)	
3)	
4)	
5)	
6)	

138. Using the form below, record each of the following 2012 transactions for Craig Corporation:

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

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

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

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

140. The following transactions apply to Fort Bend Corporation:

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

7) Paid \$2,500 dividends to stockholders

Required:

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

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

141. Steve Sims started a consulting business on January 1, 2012, and the business engaged in the following transactions during the year:

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

Required:

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

Assets = Liabilities + Equity

1)

2)

3)

4)

5)

b) Prepare an income statement and statement of cash flows for 2012.

142. Perez Company was founded in 2012 and engaged in the following transactions:

1. issued common stock for cash
2. purchased supplies on account
3. collected cash from a customer for services to be provided over a period of 1 year
4. paid a cash dividend to stockholders

5. purchased a 2-year fire insurance policy
6. provided services to customers on account
7. collected cash from accounts receivable
8. paid cash for various operating expenses
9. paid rent in advance for 3 months at a time

Required:

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

143. Thomas Corporation began business by issuing \$2,000 of common stock on January 1, 2012. The business performed \$8,000 of service on account in 2012 and collected \$6,000 of this amount by year end. It paid operating expenses of \$4,500 and paid a \$500 dividend to stockholders.

Required:

- a) What is the amount of total assets at the end of 2012?
- b) What is the amount of cash on hand at the end of 2012?
- c) What is the net income for 2012?
- d) Prepare a balance sheet for 2012.

144. The effects of Blank Company's transactions occurring during 2012 and the related end-of-year adjustments have been recorded below using the accounting equation.

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

Required:

With your knowledge of transaction analysis and the accounting equation,

- Prepare an income statement for 2012, and
- Prepare a statement of cash flows for 2012.

145. Hardt Corporation began business operations and experienced the following transactions during 2012:

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

Required:

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

Event	Cash	+	Accounts Rec.	=	Accounts Pay	+	Common Stock	+	Retained Earnings	Cash Flows
1										
2										
3										
4										
5										
Totals										

b) Prepare an income statement, balance sheet and statement of cash flows for 2012.

146. Anderson Book Company shows the following transactions for the accounting period ending December 31, 2012:

- 1) Sold books to customers for \$34,000 on account
- 2) Collected \$28,000 from customers
- 3) Issued common stock for \$8,000 cash
- 4) Prepaid four months rent for \$4,400 on October 1, 2012
- 5) Purchase supplies for \$10,500 cash
- 6) Physical count shows \$3,250 of supplies left over on December 31, 2012
- 7) Recorded adjustment for prepaid rent used up

Show how the above transactions and yearend adjustments affect the financial statement accounts on the accounting equation. After entering all the transactions and adjustments, enter column totals.

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

147. On October 1, 2012, Warren Company Consulting accepted \$20,000 in advance for a consulting job that should take 12 months. At December 31, the company had completed one fourth of the job.

Required:

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

Assets = Liabilities + Equity

Event No.

1) _____

2) _____

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

1) What amount of revenue will appear on the 2012 income statement related to these events?

2) What amounts, if any, will appear on the balance sheet at December 31, 2012?

3) What amount, if any, will appear on the 2012 statement of cash flows? In which section would the amount appear?

148. The balance in the Prepaid Rent account at the end of the year, before adjustments, was \$18,000. This amount represented six months' rent paid on November 1, 2012.

- a) What amount, if any, of Rent Expense will be shown on the 2012 income statement?
- b) What amount, if any, would be shown on the statement of cash flows for 2012? In which section would that amount appear?

149. On November 1, 2012, Kelly Rowan received \$2,100 in advance for services that she will perform over the next six months. Related to this transaction, list any amounts and the related accounts that will be shown on the following 2012 financial statements after adjustments.

- a) Balance Sheet
- b) Income Statement
- c) Statement of Cash Flows

150. On January 1, 2012, the balance in the Supplies account was \$6,000. During the year, \$13,500 of supplies were purchased for cash. After the year-end adjustments were prepared, the balance in the supplies account was \$8,300 on December 31, 2012.

Required:

- a) What amount of Supplies Expense will be reported on the 2012 income statement?
- b) What amount, if any will be reported on the 2012 statement of cash flows for supplies, and in what section?

Chapter 02 Understanding the Accounting Cycle **Answer Key**

Multiple Choice Questions

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

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

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

AACSB: Analytic
AICPA BB: Critical Thinking
AICPA FN: Reporting
Bloom's: Analysis
Difficulty: Medium

Learning Objective: 02-01 Record basic accrual and deferral events in a horizontal financial statements model.

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

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

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

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

AACSB: Analytic
AICPA BB: Critical Thinking
AICPA FN: Reporting
Bloom's: Analysis
Difficulty: Medium

Learning Objective: 02-01 Record basic accrual and deferral events in a horizontal financial statements model.

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

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

AACSB: Analytic
AICPA BB: Critical Thinking
AICPA FN: Reporting
Bloom's: Analysis
Difficulty: Medium

Learning Objective: 02-01 Record basic accrual and deferral events in a horizontal financial statements model.

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

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

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

AACSB: Analytic
 AICPA BB: Critical Thinking
 AICPA FN: Reporting
 Bloom's: Analysis
 Difficulty: Medium

Learning Objective: 02-01 Record basic accrual and deferral events in a horizontal financial statements model.

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

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

AACSB: Communication
 AICPA BB: Industry
 AICPA FN: Reporting
 Bloom's: Remember
 Difficulty: Medium

Learning Objective: 02-01 Record basic accrual and deferral events in a horizontal financial statements model.

6. Which of the following events involves an accrual?

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

AACSB: Analytic
AICPA BB: Critical Thinking
AICPA FN: Reporting
Bloom's: Analysis
Difficulty: Medium

Learning Objective: 02-01 Record basic accrual and deferral events in a horizontal financial statements model.

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

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

AACSB: Analytic
AICPA BB: Critical Thinking
AICPA FN: Reporting
Bloom's: Analysis
Difficulty: Medium

Learning Objective: 02-01 Record basic accrual and deferral events in a horizontal financial statements model.

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

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

AACSB: Analytic
AICPA BB: Critical Thinking
AICPA FN: Measurement
Bloom's: Analysis
Difficulty: Medium

Learning Objective: 02-01 Record basic accrual and deferral events in a horizontal financial statements model.

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

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

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

AACSB: Analytic
AICPA BB: Critical Thinking
AICPA FN: Reporting
Bloom's: Analysis
Difficulty: Medium

Learning Objective: 02-01 Record basic accrual and deferral events in a horizontal financial statements model.

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

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

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

AACSB: Analytic
AICPA BB: Critical Thinking
AICPA FN: Reporting
Bloom's: Analysis
Difficulty: Medium

Learning Objective: 02-01 Record basic accrual and deferral events in a horizontal financial statements model.

11. Stahl Company paid \$7,800 on May 1, 2012 for insurance coverage for a one year period beginning that date. The adjusting entry required to recognize insurance expense on December 31, 2012 would have what effect on the financial statements?

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

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

AACSB: Analytic
 AICPA BB: Critical Thinking
 AICPA FN: Reporting
 Bloom's: Analysis
 Difficulty: Hard

Learning Objective: 02-01 Record basic accrual and deferral events in a horizontal financial statements model.

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

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

AACSB: Analytic
 AICPA BB: Critical Thinking
 AICPA FN: Reporting
 Bloom's: Analysis
 Difficulty: Medium

Learning Objective: 02-01 Record basic accrual and deferral events in a horizontal financial statements model.

13. Which of the following transactions involves a deferral?

- A. recording the prepayment of three months' rent
- B. recording the interest earned (but not received) on a certificate of deposit
- C. recording interest accrued on a note payable
- D. recording salaries of employees earned but not yet paid

AACSB: Analytic
AICPA BB: Critical Thinking
AICPA FN: Reporting
Bloom's: Analysis
Difficulty: Medium

Learning Objective: 02-01 Record basic accrual and deferral events in a horizontal financial statements model.

14. Which of the following does not involve a deferral?

- A. receipt of advance fees from clients
- B. recording salaries of employees earned but not yet paid
- C. payment of six months' rent
- D. purchase of supplies on account

AACSB: Analytic
AICPA BB: Critical Thinking
AICPA FN: Reporting
Bloom's: Analysis
Difficulty: Medium

Learning Objective: 02-01 Record basic accrual and deferral events in a horizontal financial statements model.

15. The adjustment to record the completion of services for which clients had paid in advance would involve which of the following?

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

AACSB: Analytic
AICPA BB: Critical Thinking
AICPA FN: Reporting
Bloom's: Analysis
Difficulty: Medium

Learning Objective: 02-02 Organize general ledger accounts under an accounting equation.

16. If a company purchases supplies on account, this transaction would cause

- A. total assets to decrease.
- B. liabilities to increase.**
- C. equity to decrease.
- D. Retained Earnings to increase.

AACSB: Analytic
AICPA BB: Critical Thinking
AICPA FN: Reporting
Bloom's: Analysis
Difficulty: Easy

Learning Objective: 02-02 Organize general ledger accounts under an accounting equation.

17. On May 1, 2012, Perez Company paid \$12,000 rent for a one year lease on equipment it uses in its operations. The adjusting entry at the end of the year

- A. decreases assets and stockholders' equity.**
- B. decreases assets and liabilities.
- C. increases an expense and decreases a liability.
- D. is not required.

AACSB: Analytic
AICPA BB: Critical Thinking
AICPA FN: Reporting
Bloom's: Analysis
Difficulty: Medium

Learning Objective: 02-02 Organize general ledger accounts under an accounting equation.

18. The following selected account balances were drawn from the 2012 balance sheet and income statement of Fultz Company:

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

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

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

AACSB: Analytic
AICPA BB: Critical Thinking
AICPA FN: Measurement
Bloom's: Analysis
Difficulty: Hard

Learning Objective: 02-02 Organize general ledger accounts under an accounting equation.

19. Dale Company purchased land costing \$2,400 by paying cash. The company earned \$2,000 revenue on account and incurred \$1,100 of operating expenses on account. As a result of these transactions:

- A. total assets increased by \$2,400.
- B. liabilities increased by \$1,100.**
- C. total assets increased by \$5,400.
- D. both A and B.

AACSB: Analytic
AICPA BB: Critical Thinking
AICPA FN: Measurement
Bloom's: Analysis
Difficulty: Medium

Learning Objective: 02-02 Organize general ledger accounts under an accounting equation.

20. Bloomfield Company issued stock for \$30,000 cash on January 20, 2012. During 2012, the company recorded revenue on account of \$12,000 and expenses on account of \$5,500. Bloomfield received \$8,200 cash from accounts receivable and paid \$4,500 on the accounts payable. The company also purchased land for \$5,000 cash. The beginning cash balance was zero. Based on this information, the amount of cash at the end of the year is:

A. \$31,500
B. \$22,974
C. \$29,100
D. \$28,700

AACSB: Analytic
AICPA BB: Critical Thinking
AICPA FN: Measurement
Bloom's: Analysis
Difficulty: Medium

Learning Objective: 02-02 Organize general ledger accounts under an accounting equation.

21. Nikonowicz Enterprises experienced the following events during 2012, its first year in operation:

The business acquired \$10,000 cash by issuing common stock to investors.
The business purchased land for \$6,000 cash.
Services were provided to customers for \$8,000 cash.
Services were provided to customers for \$3,000 on account.
Operating expenses of \$5,000 were incurred and paid in cash.
Operating expenses of \$2,000 were incurred on account.
A dividend of \$1,000 was paid to the owners of Nikonowicz Enterprises.

Based on this information, the amount of retained earnings as of December 31, 2012, was

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

AACSB: Analytic
AICPA BB: Critical Thinking
AICPA FN: Measurement
Bloom's: Analysis

22. Jaycox Company received \$1,000 cash from the issue of stock on January 1, 2012. During 2012 the Jaycox Company earned \$3,500 of revenue on account. The company collected \$2,400 cash from accounts receivable and paid \$3,000 cash for operating expenses. Based on this information alone:

- A.** total assets increased by \$1,500.
- B. total assets decreased by \$3,500.
- C. total assets increased by \$2,400.
- D. total assets did not change.

AACSB: Analytic

AICPA BB: Critical Thinking

AICPA FN: Measurement

Bloom's: Analysis

Difficulty: Medium

Learning Objective: 02-02 Organize general ledger accounts under an accounting equation.

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

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

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

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

AACSB: Analytic

AICPA BB: Critical Thinking

AICPA FN: Measurement

Bloom's: Analysis

Nez Company provided services for \$7,500 cash during the 2012 accounting period. Nez incurred \$6,000 expenses on account during 2012, and by the end of the year, \$3,000 of that amount had been paid with cash. Nez paid dividends of \$900 to stockholders during the year. Assume that these are the only accounting events that affected Nez during the 2012 accounting period.

24. What was the amount of Nez's net income for 2012?

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

AACSB: Analytic
AICPA BB: Critical Thinking
AICPA FN: Measurement
Bloom's: Analysis
Difficulty: Medium

Learning Objective: 02-03 Prepare financial statements based on accrual accounting.

25. What was Nez's cash flow from operating activities for 2012?

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

AACSB: Analytic
AICPA BB: Critical Thinking
AICPA FN: Measurement
Bloom's: Analysis
Difficulty: Medium

Learning Objective: 02-03 Prepare financial statements based on accrual accounting.

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

26. Grace's net income was:

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

AACSB: Analytic
AICPA BB: Critical Thinking
AICPA FN: Measurement
Bloom's: Analysis
Difficulty: Medium

Learning Objective: 02-03 Prepare financial statements based on accrual accounting.

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

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

AACSB: Analytic
AICPA BB: Critical Thinking
AICPA FN: Measurement
Bloom's: Analysis
Difficulty: Medium

Learning Objective: 02-03 Prepare financial statements based on accrual accounting.

The following accounts and balances were drawn from the records of Rayburn Company on December 31, 2012:

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

28. Total assets on the December 31, 2012 balance sheet amounted to

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

AACSB: Analytic
AICPA BB: Critical Thinking
AICPA FN: Measurement
Bloom's: Analysis
Difficulty: Easy

Learning Objective: 02-03 Prepare financial statements based on accrual accounting.

29. The amount of net income shown on the December 31, 2012 income statement would amount to:

- A. \$550.
- B. \$800.
- C. \$50.
- D.** \$250.

AACSB: Analytic
AICPA BB: Critical Thinking
AICPA FN: Measurement
Bloom's: Analysis
Difficulty: Easy

Learning Objective: 02-03 Prepare financial statements based on accrual accounting.

30. Which of the following accounts would not appear on a balance sheet?

- A. Equipment
- B. Interest Payable
- C.** Interest Revenue
- D. Retained Earnings

AACSB: Analytic
AICPA BB: Critical Thinking
AICPA FN: Reporting
Bloom's: Analysis
Difficulty: Easy

Learning Objective: 02-03 Prepare financial statements based on accrual accounting.

31. Which of the following would be included in the "cash flows from investing activities" section of the statement of cash flows?

- A. Borrowed \$10,000 from a local bank.
- B. Paid \$1,000 of expenses with cash.
- C. Sold land for cash.**
- D. Issued common stock for cash.

AACSB: Analytic
AICPA BB: Critical Thinking
AICPA FN: Reporting
Bloom's: Analysis
Difficulty: Medium

Learning Objective: 02-03 Prepare financial statements based on accrual accounting.

32. Which of the following would be included in the "cash flows from financing activities" section of the statement of cash flows?

- A. Collected cash from accounts receivable.
- B. Loaned cash to another company.
- C. Paid cash dividend to stockholders.**
- D. Purchased insurance.

AACSB: Analytic
AICPA BB: Critical Thinking
AICPA FN: Reporting
Bloom's: Analysis
Difficulty: Medium

Learning Objective: 02-03 Prepare financial statements based on accrual accounting.

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

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

AACSB: Analytic
AICPA BB: Critical Thinking
AICPA FN: Reporting
Bloom's: Analysis
Difficulty: Medium

Learning Objective: 02-03 Prepare financial statements based on accrual accounting.

34. Which of the following financial statement elements is closed at the end of an accounting cycle?

- A. Liabilities
- B. Equity
- C. Revenues**
- D. Assets

AACSB: Analytic
AICPA BB: Critical Thinking
AICPA FN: Reporting
Bloom's: Analysis
Difficulty: Easy

Learning Objective: 02-04 Describe the closing process; the accounting cycle; and the matching concept.

35. Which of the following accounts would not be closed at the end of an accounting cycle?

- A. Common Stock**
- B. Revenue
- C. Dividends
- D. Salaries Expense

AACSB: Analytic
AICPA BB: Critical Thinking
AICPA FN: Reporting
Bloom's: Analysis
Difficulty: Easy

Learning Objective: 02-04 Describe the closing process; the accounting cycle; and the matching concept.

36. The matching concept refers to the "matching" of:

- A. expenses and liabilities
- B. expenses and revenues**
- C. assets and equity
- D. assets and liabilities

AACSB: Analytic
AICPA BB: Critical Thinking
AICPA FN: Reporting
Bloom's: Analysis
Difficulty: Easy

Learning Objective: 02-04 Describe the closing process; the accounting cycle; and the matching concept.

37. The result of the matching process is reported on which financial statement?

- A. Balance Sheet
- B. Income Statement**
- C. Statement of Changes in Stockholders' Equity
- D. Statement of Cash Flows

AACSB: Analytic
AICPA BB: Critical Thinking
AICPA FN: Reporting
Bloom's: Analysis
Difficulty: Easy

Learning Objective: 02-04 Describe the closing process; the accounting cycle; and the matching concept.

38. Expenses that are matched with the period in which they are incurred are frequently called:

- A. period costs.**
- B. matched expenses.
- C. market expenses.
- D. working costs.

AACSB: Analytic
AICPA BB: Critical Thinking
AICPA FN: Reporting
Bloom's: Analysis
Difficulty: Easy

Learning Objective: 02-04 Describe the closing process; the accounting cycle; and the matching concept.

39. Which of the following lists represents the correct sequence of stages in an accounting cycle?

- A. record transactions, prepare statements, adjust accounts, close temporary accounts
- B. prepare statements, close temporary accounts, record transactions, adjust accounts
- C. close temporary accounts, record transactions, prepare statements, adjust accounts
- D.** record transactions, adjust accounts, prepare statements, close temporary accounts

AACSB: Analytic
AICPA BB: Critical Thinking
AICPA FN: Reporting
Bloom's: Analysis
Difficulty: Medium

Learning Objective: 02-04 Describe the closing process; the accounting cycle; and the matching concept.

40. The purpose of the accrual basis of accounting is to:

- A. report revenue when received.
- B.** improve the matching of revenue and expense in the proper period.
- C. report expenses when cash disbursements are made.
- D. improve the company's earnings per share.

AACSB: Analytic
AICPA BB: Critical Thinking
AICPA FN: Reporting
Bloom's: Analysis
Difficulty: Medium

Learning Objective: 02-04 Describe the closing process; the accounting cycle; and the matching concept.

41. Which of the following accounts is a permanent account (an account that is not closed)?

- A. Rent Expense
- B. Service Revenue
- C. Dividends
- D.** Prepaid Insurance

AACSB: Analytic

AICPA BB: Critical Thinking
AICPA FN: Reporting
Bloom's: Analysis
Difficulty: Easy

Learning Objective: 02-04 Describe the closing process; the accounting cycle; and the matching concept.

42. Which of the following accounts is a temporary account?

- A. Prepaid Insurance
- B. Unearned Subscriptions Revenue
- C. Retained Earnings
- D.** Subscription Revenue

AACSB: Analytic
AICPA BB: Critical Thinking
AICPA FN: Reporting
Bloom's: Analysis
Difficulty: Easy

Learning Objective: 02-04 Describe the closing process; the accounting cycle; and the matching concept.

43. The conservatism principle

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

AACSB: Analytic
AICPA BB: Critical Thinking
AICPA FN: Reporting
Bloom's: Analysis
Difficulty: Easy

Learning Objective: 02-04 Describe the closing process; the accounting cycle; and the matching concept.

44. Which of the following would cause net income on the accrual basis to be different than (either higher or lower than) cash provided by operating activities on the statement of cash flows?

A. acquiring \$10,000 cash from the owners
B. incurring operating expenses on account
C. providing services to a customer for cash
D. purchasing land for cash

AACSB: Analytic
AICPA BB: Critical Thinking
AICPA FN: Reporting
Bloom's: Analysis
Difficulty: Medium

Learning Objective: 02-03 Prepare financial statements based on accrual accounting.

45. Harrison and Sons is a law firm. On September 1, 2012, Harrison contracted to provide 12 months of legal services to a client. On that date, Harrison collected a \$36,000 retainer and began providing services. How much revenue would Harrison report from that client for the year ending December 31, 2012?

A. \$36,000
B. \$12,000
C. \$9,000
D. \$15,000

AACSB: Analytic
AICPA BB: Critical Thinking
AICPA FN: Measurement
Bloom's: Analysis
Difficulty: Medium

Learning Objective: 02-03 Prepare financial statements based on accrual accounting.

The Blumer Company entered into the following transactions during 2012:

1. The company was started with \$22,000 of common stock issued to investors for cash.
 2. On July 1, the company purchased land that cost \$15,500 cash.
 3. There were \$700 of supplies purchased on account.
 4. Sales on account amounted to \$9,500.
 5. Cash collections of receivables were \$5,500.
 6. On October 1, 2012, the company paid \$3,600 in advance for a 12-month insurance policy that became effective on October 1.
 7. Supplies on hand as of December 31, 2010 amounted to \$225.
46. The adjusting entry necessary to record the supplies expense would result in a:
- A. \$700 increase in assets and liabilities.
 - B. \$700 decrease in assets and equity.
 - C. \$475 decrease in assets and equity.**
 - D. \$475 increase in assets and liabilities.

AACSB: Analytic
AICPA BB: Critical Thinking
AICPA FN: Measurement
Bloom's: Analysis
Difficulty: Medium

Learning Objective: 02-01 Record basic accrual and deferral events in a horizontal financial statements model.

47. The amount of insurance expense reported on the income statement for 2012 would be:
- A. \$900.**
 - B. \$2,400.
 - C. \$300.
 - D. \$600.

AACSB: Analytic
AICPA BB: Critical Thinking
AICPA FN: Measurement
Bloom's: Analysis
Difficulty: Medium

Learning Objective: 02-03 Prepare financial statements based on accrual accounting.

48. The amount of cash flow from operating activities would be:

- A. \$1,900.
- B. \$8,400.
- C. \$3,100.
- D. \$5,400.

AACSB: Analytic
AICPA BB: Critical Thinking
AICPA FN: Measurement
Bloom's: Analysis
Difficulty: Hard

Learning Objective: 02-03 Prepare financial statements based on accrual accounting.

49. The amount of total liabilities appearing on the December 31, 2012 balance sheet would be:

- A. \$3,600.
- B. \$4,000.
- C. \$475.
- D. \$700.

AACSB: Analytic
AICPA BB: Critical Thinking
AICPA FN: Measurement
Bloom's: Analysis
Difficulty: Medium

Learning Objective: 02-03 Prepare financial statements based on accrual accounting.

LeMars Company signed a three year contract to perform consulting services for a local manufacturer on September 1, 2012. LeMars received \$48,000 cash as an advance payment for these services and agreed the work would begin immediately.

50. The amounts of revenue that would appear on the 2012 and 2013 income statements would be:

- A. \$16,000/\$16,000.
- B. \$48,000/\$-0-.
- C. \$5,333/\$16,000.**
- D. \$5,833/\$29,187.

AACSB: Analytic
AICPA BB: Critical Thinking
AICPA FN: Measurement
Bloom's: Analysis
Difficulty: Medium

Learning Objective: 02-05 Explain how business events affect financial statements over multiple accounting cycles.

51. The amounts of cash flow that would be on the 2012 and 2013 statements of cash flows would be:

- A. \$16,000/\$16,000.
- B. \$-0-/\$48,000.
- C. \$11,667/\$11,667.
- D. \$48,000/\$-0-**

AACSB: Analytic
AICPA BB: Critical Thinking
AICPA FN: Measurement
Bloom's: Analysis
Difficulty: Medium

Learning Objective: 02-05 Explain how business events affect financial statements over multiple accounting cycles.

52. Jones Company started the accounting period with \$500 in supplies. During the period the company purchased \$1,100 of supplies on account. At the end of the accounting period there were \$700 of supplies on hand. Based on this information, the amount of supplies expense appearing on the end-of-period income statement would be

- A. \$1,600.
- B. \$1,100.
- C. \$900.**
- D. \$400.

AACSB: Analytic

AICPA BB: Critical Thinking
AICPA FN: Measurement
Bloom's: Analysis
Difficulty: Medium

Learning Objective: 02-03 Prepare financial statements based on accrual accounting.

53. Which of the following is an asset source transaction?

- A.** Purchased machine by issuing a note payable
- B. Paid a cash dividend to stockholders
- C. Purchased equipment for cash
- D. Collected cash from an account receivable

AACSB: Analytic
AICPA BB: Critical Thinking
AICPA FN: Reporting
Bloom's: Analysis
Difficulty: Medium

Learning Objective: 02-06 Classify accounting events into one of four categories:a. asset source transactions.b. asset use transactions.c. asset exchange transactions.d. claims exchange transactions.

54. Which of the following is an asset exchange transaction?

- A. Borrowed cash from a local bank.
- B. Incurred expenses on account.
- C. Recognized accrued salaries expense.
- D.** Paid cash to purchase land.

AACSB: Analytic
AICPA BB: Critical Thinking
AICPA FN: Reporting
Bloom's: Analysis
Difficulty: Medium

Learning Objective: 02-06 Classify accounting events into one of four categories:a. asset source transactions.b. asset use transactions.c. asset exchange transactions.d. claims exchange transactions.

55. A transaction that increases cash and increases notes payable is a/an

- A. claims exchange transaction.
- B.** asset source transaction.
- C. asset use transaction.
- D. asset exchange transaction.

AACSB: Analytic

AICPA BB: Critical Thinking
AICPA FN: Reporting
Bloom's: Analysis
Difficulty: Medium

Learning Objective: 02-06 Classify accounting events into one of four categories:a. asset source transactions.b. asset use transactions.c. asset exchange transactions.d. claims exchange transactions.

56. A transaction that decreases cash and decreases notes payable is a/an

- A. claims exchange transaction.
- B. asset source transaction.
- C. asset use transaction.**
- D. asset exchange transaction.

AACSB: Analytic
AICPA BB: Critical Thinking
AICPA FN: Reporting
Bloom's: Analysis
Difficulty: Medium

Learning Objective: 02-06 Classify accounting events into one of four categories:a. asset source transactions.b. asset use transactions.c. asset exchange transactions.d. claims exchange transactions.

57. The recognition of an expense may be accompanied by which of the following?

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

AACSB: Analytic
AICPA BB: Critical Thinking
AICPA FN: Reporting
Bloom's: Analysis
Difficulty: Medium

Learning Objective: 02-01 Record basic accrual and deferral events in a horizontal financial statements model.

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

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

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

AACSB: Analytic
AICPA BB: Critical Thinking
AICPA FN: Reporting
Bloom's: Analysis
Difficulty: Medium

Learning Objective: 02-06 Classify accounting events into one of four categories:a. asset source transactions.b. asset use transactions.c. asset exchange transactions.d. claims exchange transactions.

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

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

AACSB: Analytic
AICPA BB: Critical Thinking
AICPA FN: Reporting
Bloom's: Analysis
Difficulty: Medium

Learning Objective: 02-01 Record basic accrual and deferral events in a horizontal financial statements model.

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

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

AACSB: Analytic
AICPA BB: Critical Thinking
AICPA FN: Reporting
Bloom's: Analysis
Difficulty: Medium

Learning Objective: 02-06 Classify accounting events into one of four categories:a. asset source transactions.b. asset use transactions.c. asset exchange transactions.d. claims exchange transactions.

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

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

AACSB: Analytic
AICPA BB: Critical Thinking
AICPA FN: Reporting
Bloom's: Analysis
Difficulty: Hard

Learning Objective: 02-06 Classify accounting events into one of four categories:a. asset source transactions.b. asset use transactions.c. asset exchange transactions.d. claims exchange transactions.

True / False Questions

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

TRUE

AACSB: Communication
AICPA BB: Industry
AICPA FN: Reporting

Bloom's: Remember

Difficulty: Easy

Learning Objective: 02-01 Record basic accrual and deferral events in a horizontal financial statements model.

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

FALSE

AACSB: Communication

AICPA BB: Industry

AICPA FN: Reporting

Bloom's: Remember

Difficulty: Easy

Learning Objective: 02-01 Record basic accrual and deferral events in a horizontal financial statements model.

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

TRUE

AACSB: Communication

AICPA BB: Industry

AICPA FN: Reporting

Bloom's: Remember

Difficulty: Easy

Learning Objective: 02-01 Record basic accrual and deferral events in a horizontal financial statements model.

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

TRUE

AACSB: Communication

AICPA BB: Industry

AICPA FN: Reporting

Bloom's: Remember

Difficulty: Medium

Learning Objective: 02-01 Record basic accrual and deferral events in a horizontal financial statements model.

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

TRUE

AACSB: Communication

AICPA BB: Industry

AICPA FN: Reporting

Bloom's: Remember

Difficulty: Medium

Learning Objective: 02-01 Record basic accrual and deferral events in a horizontal financial statements model.

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

FALSE

AACSB: Communication
AICPA BB: Industry
AICPA FN: Reporting
Bloom's: Remember
Difficulty: Medium

Learning Objective: 02-03 Prepare financial statements based on accrual accounting.

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

FALSE

AACSB: Communication
AICPA BB: Industry
AICPA FN: Reporting
Bloom's: Remember
Difficulty: Easy

Learning Objective: 02-04 Describe the closing process; the accounting cycle; and the matching concept.

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

TRUE

AACSB: Communication
AICPA BB: Industry
AICPA FN: Reporting
Bloom's: Remember
Difficulty: Easy

Learning Objective: 02-04 Describe the closing process; the accounting cycle; and the matching concept.

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

TRUE

AACSB: Communication
AICPA BB: Industry
AICPA FN: Reporting
Bloom's: Remember
Difficulty: Easy

Learning Objective: 02-04 Describe the closing process; the accounting cycle; and the matching concept.

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

FALSE

AACSB: Communication
AICPA BB: Industry
AICPA FN: Reporting
Bloom's: Remember
Difficulty: Medium

Learning Objective: 02-04 Describe the closing process; the accounting cycle; and the matching concept.

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

TRUE

AACSB: Communication
AICPA BB: Industry
AICPA FN: Reporting
Bloom's: Remember
Difficulty: Hard

Learning Objective: 02-04 Describe the closing process; the accounting cycle; and the matching concept.

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

TRUE

AACSB: Communication
AICPA BB: Industry
AICPA FN: Reporting
Bloom's: Remember
Difficulty: Easy

Learning Objective: 02-04 Describe the closing process; the accounting cycle; and the matching concept.

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

TRUE

AACSB: Communication
AICPA BB: Industry
AICPA FN: Reporting
Bloom's: Remember
Difficulty: Easy

Learning Objective: 02-04 Describe the closing process; the accounting cycle; and the matching concept.

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

FALSE

AACSB: Communication
AICPA BB: Industry
AICPA FN: Reporting
Bloom's: Remember
Difficulty: Medium

Learning Objective: 02-04 Describe the closing process; the accounting cycle; and the matching concept.

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

TRUE

AACSB: Communication
AICPA BB: Industry
AICPA FN: Reporting
Bloom's: Remember
Difficulty: Medium

Learning Objective: 02-04 Describe the closing process; the accounting cycle; and the matching concept.

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

TRUE

AACSB: Communication
AICPA BB: Industry
AICPA FN: Reporting
Bloom's: Remember
Difficulty: Easy

Learning Objective: 02-03 Prepare financial statements based on accrual accounting.

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

TRUE

AACSB: Communication
AICPA BB: Industry
AICPA FN: Reporting
Bloom's: Remember
Difficulty: Medium

Learning Objective: 02-01 Record basic accrual and deferral events in a horizontal financial statements model.

79. The collection of an account receivable is a claims exchange transaction.

FALSE

AACSB: Communication
AICPA BB: Industry
AICPA FN: Reporting
Bloom's: Remember
Difficulty: Medium

Learning Objective: 02-06 Classify accounting events into one of four categories:a. asset source transactions.b. asset use transactions.c. asset exchange transactions.d. claims exchange transactions.

80. Providing services to customers on account is an asset source transaction.

TRUE

AACSB: Communication
AICPA BB: Industry
AICPA FN: Reporting
Bloom's: Remember
Difficulty: Easy

Learning Objective: 02-06 Classify accounting events into one of four categories:a. asset source transactions.b. asset use transactions.c. asset exchange transactions.d. claims exchange transactions.

81. An adjusting entry that decreases Unearned Service Revenue and increases Service Revenue is a claims exchange transaction.

TRUE

AACSB: Communication
AICPA BB: Industry
AICPA FN: Reporting
Bloom's: Remember
Difficulty: Medium

Learning Objective: 02-06 Classify accounting events into one of four categories:a. asset source transactions.b. asset use transactions.c. asset exchange transactions.d. claims exchange transactions.

82. Revenue is the economic benefit derived from operating a business.

TRUE

AACSB: Communication
AICPA BB: Industry
AICPA FN: Reporting
Bloom's: Remember
Difficulty: Easy

Learning Objective: 02-01 Record basic accrual and deferral events in a horizontal financial statements model.

83. Often, the recognition of revenue is accompanied by an increase in liabilities.

FALSE

AACSB: Communication
AICPA BB: Industry
AICPA FN: Reporting
Bloom's: Remember
Difficulty: Medium

Learning Objective: 02-01 Record basic accrual and deferral events in a horizontal financial statements model.

Matching Questions

84. Classify each of the following costs as an asset or expense.

- | | | |
|------------|---|-----------------|
| 1. Asset | Paid advertising for the current month. | <u>2</u> |
| 2. Expense | Used supplies to generate revenue. | <u>2</u> |
| 3. Asset | Purchased a building with cash. | <u>1</u> |
| 4. Expense | Paid two years rent in advance. | <u>1</u> |

AACSB: Communication
AICPA BB: Industry
AICPA FN: Reporting
Bloom's: Remember
Difficulty: Easy

Learning Objective: 02-01 Record basic accrual and deferral events in a horizontal financial statements model.

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

1. Cash flows from operating activities	balance sheet <u>2</u> statement of changes in equity and statement of cash flows <u>4</u>
2. Prepaid insurance	income statement <u>3</u>
3. Interest expense	
4. Dividends paid to stockholders	balance sheet <u>12</u>
5. Amount of retained earnings at the end of the accounting period	income statement <u>7</u> balance sheet and statement of changes in equity <u>5</u>
6. Accounts receivable	balance sheet <u>10</u> statement of cash flows <u>1</u>
7. Salaries expense	statement of changes in equity <u>8</u>
8. Beginning common stock	statement of changes in equity and statement of cash flows <u>11</u>
9. Salaries payable	
10. Unearned subscription revenue	balance sheet <u>9</u>
11. Issued stock to investors for cash	balance sheet <u>6</u>
12. Notes payable	

AACSB: Analytic
AICPA BB: Critical Thinking
AICPA FN: Reporting
Bloom's: Apply
Difficulty: Medium

Learning Objective: 02-03 Prepare financial statements based on accrual accounting.
Learning Objective: 02-05 Explain how business events affect financial statements over multiple accounting cycles.

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

1. Paid cash to settle accounts payable	not reported on the statement of cash flows <u>7</u>
2. Issued common stock for \$30,000 cash	financing activities <u>4</u>
3. Collected accounts receivable	operating activities <u>6</u>
4. Borrowed funds from the bank	operating activities <u>1</u>
5. Paid cash to acquire land	financing activities <u>2</u>
6. Paid rent for the month	operating activities <u>3</u>
7. Made adjusting entry to accrue salary expense at the end of the year	investing activities <u>5</u>

AACSB: Analytic
AICPA BB: Critical Thinking
AICPA FN: Reporting
Bloom's: Apply
Difficulty: Medium

Learning Objective: 02-03 Prepare financial statements based on accrual accounting.
Learning Objective: 02-05 Explain how business events affect financial statements over multiple accounting cycles.

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

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

AACSB: Analytic
AICPA BB: Critical Thinking
AICPA FN: Reporting
Bloom's: Apply
Difficulty: Medium

Learning Objective: 02-06 Classify accounting events into one of four categories: a. asset source transactions. b. asset use transactions. c. asset exchange transactions. d. claims exchange transactions.

88. Tell whether each of the following events are asset source (AS), asset use (AU), asset exchange (AE), or claims exchange (CE) transactions. Transactions for the year:

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

AACSB: Analytic
AICPA BB: Critical Thinking
AICPA FN: Reporting
Bloom's: Apply
Difficulty: Medium

Learning Objective: 02-06 Classify accounting events into one of four categories:a. asset source transactions.b. asset use transactions.c. asset exchange transactions.d. claims exchange transactions.

Short Answer Questions

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

Increase = I Decrease = D No Effect = N

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

Assets	Liabilities	Equity	Revenues	Expenses	Net Income	Cash Flow

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

AACSB: Analytic
AICPA BB: Critical Thinking
AICPA FN: Reporting
Bloom's: Analysis
Difficulty: Easy

Learning Objective: 02-01 Record basic accrual and deferral events in a horizontal financial statements model.

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

Assets	Liabilities	Equity	Revenues	Expenses	Net Income	Cash Flow

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

AACSB: Analytic
AICPA BB: Critical Thinking
AICPA FN: Reporting
Bloom's: Analysis
Difficulty: Easy

Learning Objective: 02-01 Record basic accrual and deferral events in a horizontal financial statements model.

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

Assets	Liabilities	Equity	Revenues	Expenses	Net Income	Cash Flow

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

AACSB: Analytic
AICPA BB: Critical Thinking
AICPA FN: Reporting
Bloom's: Analysis
Difficulty: Easy

Learning Objective: 02-01 Record basic accrual and deferral events in a horizontal financial statements model.

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

Assets	Liabilities	Equity	Revenues	Expenses	Net Income	Cash Flow

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

AACSB: Analytic
AICPA BB: Critical Thinking
AICPA FN: Reporting
Bloom's: Analysis
Difficulty: Easy

Learning Objective: 02-01 Record basic accrual and deferral events in a horizontal financial statements model.

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

Assets	Liabilities	Equity	Revenues	Expenses	Net Income	Cash Flow

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

AACSB: Analytic
AICPA BB: Critical Thinking
AICPA FN: Reporting
Bloom's: Analysis
Difficulty: Easy

Learning Objective: 02-01 Record basic accrual and deferral events in a horizontal financial statements model.

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

Assets	Liabilities	Equity	Revenues	Expenses	Net Income	Cash Flow

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

AACSB: Analytic
AICPA BB: Critical Thinking
AICPA FN: Reporting
Bloom's: Analysis
Difficulty: Easy

Learning Objective: 02-01 Record basic accrual and deferral events in a horizontal financial statements model.

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

Assets	Liabilities	Equity	Revenues	Expenses	Net Income	Cash Flow

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

AACSB: Analytic
AICPA BB: Critical Thinking
AICPA FN: Reporting
Bloom's: Analysis
Difficulty: Medium

Learning Objective: 02-01 Record basic accrual and deferral events in a horizontal financial statements model.

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

Assets	Liabilities	Equity	Revenues	Expenses	Net Income	Cash Flow

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

AACSB: Analytic
AICPA BB: Critical Thinking
AICPA FN: Reporting
Bloom's: Analysis
Difficulty: Medium

Learning Objective: 02-01 Record basic accrual and deferral events in a horizontal financial statements model.

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

Assets	Liabilities	Equity	Revenues	Expenses	Net Income	Cash Flow

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

AACSB: Analytic
AICPA BB: Critical Thinking
AICPA FN: Reporting
Bloom's: Analysis
Difficulty: Medium

Learning Objective: 02-01 Record basic accrual and deferral events in a horizontal financial statements model.

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

Assets	Liabilities	Equity	Revenues	Expenses	Net Income	Cash Flow

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

AACSB: Analytic
AICPA BB: Critical Thinking
AICPA FN: Reporting
Bloom's: Analysis
Difficulty: Easy

Learning Objective: 02-01 Record basic accrual and deferral events in a horizontal financial statements model.

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

Assets	Liabilities	Equity	Revenues	Expenses	Net Income	Cash Flow

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

AACSB: Analytic
AICPA BB: Critical Thinking
AICPA FN: Reporting
Bloom's: Analysis
Difficulty: Medium

Learning Objective: 02-01 Record basic accrual and deferral events in a horizontal financial statements model.

100. On December 1, 2012, Hays Company prepaid rent for three months in the amount of \$1,500. On December 31, Hays prepared an adjusting entry to recognize \$500 of rent expense. Show the effect of the adjusting entry.

Assets	Liabilities	Equity	Revenues	Expenses	Net Income	Cash Flow

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

AACSB: Analytic
AICPA BB: Critical Thinking
AICPA FN: Reporting
Bloom's: Analysis
Difficulty: Medium

Learning Objective: 02-01 Record basic accrual and deferral events in a horizontal financial statements model.

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

Assets	Liabilities	Equity	Revenues	Expenses	Net Income	Cash Flow

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

AACSB: Analytic
AICPA BB: Critical Thinking
AICPA FN: Reporting
Bloom's: Analysis
Difficulty: Medium

Learning Objective: 02-01 Record basic accrual and deferral events in a horizontal financial statements model.

102. On October 1, 2012, Gruene Company received \$1,200 cash in advance for 12 months of magazine subscriptions. On December 31, 2012, Gruene made the adjusting entry showing that three months of magazines had been provided to subscribers. Show the effect of the adjustment on the financial statements.

Assets	Liabilities	Equity	Revenues	Expenses	Net Income	Cash Flow

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

AACSB: Analytic
AICPA BB: Critical Thinking
AICPA FN: Reporting
Bloom's: Analysis
Difficulty: Medium

Learning Objective: 02-01 Record basic accrual and deferral events in a horizontal financial statements model.

Essay Questions

103. What is the purpose of adjusting entries?

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

*AACSB: Communication
AICPA BB: Industry
AICPA FN: Reporting
Bloom's: Remember
Difficulty: Medium*

Learning Objective: 02-01 Record basic accrual and deferral events in a horizontal financial statements model.

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

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

*AACSB: Communication
AICPA BB: Industry
AICPA FN: Reporting
Bloom's: Remember
Difficulty: Easy*

Learning Objective: 02-01 Record basic accrual and deferral events in a horizontal financial statements model.

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

When incurred (when they occur)

*AACSB: Communication
AICPA BB: Industry
AICPA FN: Reporting
Bloom's: Remember
Difficulty: Easy*

Learning Objective: 02-01 Record basic accrual and deferral events in a horizontal financial statements model.

106. What is unearned revenue? Give an example.

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

*AACSB: Communication
AICPA BB: Industry
AICPA FN: Reporting
Bloom's: Application
Bloom's: Remember
Difficulty: Medium*

Learning Objective: 02-01 Record basic accrual and deferral events in a horizontal financial statements model.

107. What type of account is Unearned Revenue?

Liability

*AACSB: Communication
AICPA BB: Industry
AICPA FN: Reporting
Bloom's: Remember
Difficulty: Easy*

Learning Objective: 02-01 Record basic accrual and deferral events in a horizontal financial statements model.

108. What type of account is Prepaid Rent?

Asset

*AACSB: Communication
AICPA BB: Industry
AICPA FN: Reporting
Bloom's: Remember
Difficulty: Easy*

Learning Objective: 02-01 Record basic accrual and deferral events in a horizontal financial statements model.

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

Performed services for customers that had paid in advance.

*AACSB: Communication
AICPA BB: Industry
AICPA FN: Reporting
Bloom's: Apply
Difficulty: Medium*

Learning Objective: 02-01 Record basic accrual and deferral events in a horizontal financial statements model.

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

Recognized accrued salaries at the end of the year.

*AACSB: Communication
AICPA BB: Industry
AICPA FN: Reporting
Bloom's: Apply
Difficulty: Medium*

Learning Objective: 02-01 Record basic accrual and deferral events in a horizontal financial statements model.

111. What is a deferral?

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

*AACSB: Communication
AICPA BB: Industry
AICPA FN: Reporting
Bloom's: Remember
Difficulty: Medium*

Learning Objective: 02-01 Record basic accrual and deferral events in a horizontal financial statements model.

112. When is revenue recognized under accrual accounting?

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

AACSB: Communication
AICPA BB: Industry
AICPA FN: Reporting
Bloom's: Remember
Difficulty: Easy

Learning Objective: 02-01 Record basic accrual and deferral events in a horizontal financial statements model.

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

Assets decrease; liabilities decrease

AACSB: Communication
AICPA BB: Industry
AICPA FN: Reporting
Bloom's: Remember
Difficulty: Medium

Learning Objective: 02-02 Organize general ledger accounts under an accounting equation.

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

Decrease assets and decrease equity (Retained Earnings)

AACSB: Communication
AICPA BB: Industry
AICPA FN: Reporting
Bloom's: Remember
Difficulty: Medium

Learning Objective: 02-02 Organize general ledger accounts under an accounting equation.

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

Decreases total assets

AACSB: Communication
AICPA BB: Industry
AICPA FN: Reporting
Bloom's: Remember
Difficulty: Easy

Learning Objective: 02-02 Organize general ledger accounts under an accounting equation.

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

No effect, it is an asset exchange

AACSB: Communication
AICPA BB: Industry
AICPA FN: Reporting
Bloom's: Remember
Difficulty: Medium

Learning Objective: 02-02 Organize general ledger accounts under an accounting equation.

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

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

AACSB: Communication
AICPA BB: Industry
AICPA FN: Reporting
Bloom's: Remember
Difficulty: Easy

Learning Objective: 02-02 Organize general ledger accounts under an accounting equation.

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

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

AACSB: Communication

AICPA BB: Industry

AICPA FN: Reporting

Bloom's: Remember

Difficulty: Easy

Learning Objective: 02-02 Organize general ledger accounts under an accounting equation.

119. What type of account is Salaries Payable?

Liability

AACSB: Communication

AICPA BB: Industry

AICPA FN: Reporting

Bloom's: Remember

Difficulty: Easy

Learning Objective: 02-02 Organize general ledger accounts under an accounting equation.

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

Statement of Changes in Stockholders' Equity

AACSB: Communication

AICPA BB: Industry

AICPA FN: Reporting

Bloom's: Remember

Difficulty: Medium

Learning Objective: 02-03 Prepare financial statements based on accrual accounting.

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

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

AACSB: Communication

AICPA BB: Industry

AICPA FN: Reporting

Bloom's: Remember

Difficulty: Medium

Learning Objective: 02-03 Prepare financial statements based on accrual accounting.

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

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

AACSB: Communication

AICPA BB: Industry

AICPA FN: Reporting

Bloom's: Remember

Difficulty: Medium

Learning Objective: 02-03 Prepare financial statements based on accrual accounting.

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

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

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

AACSB: Analytic
AICPA BB: Critical Thinking
AICPA FN: Measurement
Bloom's: Apply
Difficulty: Medium

Learning Objective: 02-03 Prepare financial statements based on accrual accounting.

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

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

AACSB: Communication
AICPA BB: Industry
AICPA FN: Reporting
Bloom's: Remember
Difficulty: Medium

Learning Objective: 02-03 Prepare financial statements based on accrual accounting.

125. What is "Retained Earnings?"

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

*AACSB: Communication
AICPA BB: Industry
AICPA FN: Reporting
Bloom's: Remember
Difficulty: Medium*

Learning Objective: 02-04 Describe the closing process; the accounting cycle; and the matching concept.

126. What is the purpose of the closing process?

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

*AACSB: Communication
AICPA BB: Industry
AICPA FN: Reporting
Bloom's: Remember
Difficulty: Medium*

Learning Objective: 02-04 Describe the closing process; the accounting cycle; and the matching concept.

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

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

*AACSB: Communication
AICPA BB: Industry
AICPA FN: Reporting
Bloom's: Remember
Difficulty: Medium*

Learning Objective: 02-04 Describe the closing process; the accounting cycle; and the matching concept.

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

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

AACSB: Communication

AICPA BB: Industry

AICPA FN: Reporting

Bloom's: Remember

Difficulty: Medium

Learning Objective: 02-04 Describe the closing process; the accounting cycle; and the matching concept.

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

Retained Earnings

AACSB: Communication

AICPA BB: Industry

AICPA FN: Reporting

Bloom's: Remember

Difficulty: Easy

Learning Objective: 02-04 Describe the closing process; the accounting cycle; and the matching concept.

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

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

AACSB: Communication

AICPA BB: Industry

AICPA FN: Reporting

Bloom's: Remember

Difficulty: Medium

Learning Objective: 02-04 Describe the closing process; the accounting cycle; and the matching concept.

131. How does conservatism affect revenue recognition?

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

AACSB: Communication

AICPA BB: Industry

AICPA FN: Reporting

Bloom's: Remember

Difficulty: Medium

Learning Objective: 02-04 Describe the closing process; the accounting cycle; and the matching concept.

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

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

AACSB: Communication

AICPA BB: Industry

AICPA FN: Reporting

Bloom's: Remember

Difficulty: Medium

Learning Objective: 02-05 Explain how business events affect financial statements over multiple accounting cycles.

133. On December 31, 2012, Detroit Co. paid \$6,000 cash for insurance coverage for the year 2013. What is the effect of this transaction on the financial statements for the 2012 reporting period?

The balance sheet will show a prepaid asset account with a balance of \$6,000. The statement of cash flows will show cash used for operating activities of \$6,000. Because the expense has not yet been incurred, the transaction will not be reflected on the income statement.

AACSB: Analytic
AICPA BB: Industry
AICPA FN: Reporting
Bloom's: Apply
Difficulty: Medium

Learning Objective: 02-01 Record basic accrual and deferral events in a horizontal financial statements model.

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

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

AACSB: Communication
AICPA BB: Industry
AICPA FN: Reporting
Bloom's: Remember
Difficulty: Medium

Learning Objective: 02-06 Classify accounting events into one of four categories:a. asset source transactions.b. asset use transactions.c. asset exchange transactions.d. claims exchange transactions.

135. Give an example of a claims exchange transaction.

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

AACSB: Communication

AICPA BB: Industry

AICPA FN: Reporting

Bloom's: Understand

Difficulty: Medium

Learning Objective: 02-06 Classify accounting events into one of four categories:a. asset source transactions.b. asset use transactions.c. asset exchange transactions.d. claims exchange transactions.

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

a) At January 1, 2012, the amount of accounts receivable was \$20,000. Cash collected on accounts receivable during the year was \$75,000. At December 31, 2012, the amount of accounts receivable was \$30,000. What were the revenues earned on account during 2012?

b) At January 1, 2012, accounts payable was \$17,000. During 2012, expenses on account were \$28,000. At December 31, 2012, accounts payable was \$15,000. What was the amount of cash paid on accounts payable during 2012?

c) At January 1, 2012, the balance in the Retained Earnings account was \$7,200. During the year, revenue earned was \$19,800 and expenses incurred were \$7,400. At December 31, 2012, the balance in the retained earnings account was \$14,200. What was the amount of cash dividends paid to stockholders during 2012?

a) \$85,000 ($\$20,000 + X - 75,000 = 30,000$)

b) \$30,000 ($\$17,000 + 28,000 - X = 15,000$)

c) \$5,400 ($\$7,200 + 12,400 \text{ net income} - X = \$14,200$)

AACSB: Analytic

AICPA BB: Critical Thinking

AICPA FN: Measurement

Bloom's: Apply

Difficulty: Medium

Learning Objective: 02-02 Organize general ledger accounts under an accounting equation.

137. The following events apply to San Antonio Company for 2012.

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

Required:

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

Accounting Equation

Event No.	
1)	
2)	
3)	
4)	
5)	
6)	

Assets =			Liabilities +	Owners' Equity	
Cash +	Prepd. Rent +	Supplies =	Accounts Payable +	Common Stock +	Retained Earnings
1) +14,000				+ 14,000	
2) -6,000	+ 6,000				
3)		+ 500	+ 500		
4) + 8,000					+ 8,000
5)		-440			-440
6)	-4,000				-4,000
16,000	2,000	60	500	14,000	3,560

138. Using the form below, record each of the following 2012 transactions for Craig Corporation:

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

Assets					Liabilities			Equity	
Cash	Accts Rec.	Ppd. Ins.	Equip		Accts Pay	Unearned Rev		Common Stock	Retained Earnings
a.									
b.									
c.									
d.									

Assets					Liabilities			Equity	
Cash	Accts Rec.	Ppd. Ins.	Equip		Accts Pay	Unearned Rev		Common Stock	Retained Earnings
a. +6,000						+6,000			
b. (600)		+600							
c.		(100)							(100)
d.						(2,000)			+2,000

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

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

- 1) Statement of cash flows and statement of changes in stockholders' equity.
- 2) Balance sheet.
- 3) Statement of cash flows.
- 4) Balance sheet.
- 5) Statement of cash flows and statement of changes in stockholders' equity.
- 6) Income statement and statement of changes in stockholders' equity.
- 7) Statement of cash flows.
- 8) Income statement.
- 9) Balance sheet & statement of changes in stockholders' equity.
- 10) Statement of cash flows.

Difficulty: Medium

Learning Objective: 02-03 Prepare financial statements based on accrual accounting.

140. The following transactions apply to Fort Bend Corporation:

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

Required:

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

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

a)		b)
Event	Cash Flow	Transaction Type
1	21,000 FA	Asset Source
2	NA	Asset Source
3	(18,000) IA	Asset Exchange
4	NA	Claims Exchange
5	15,000 OA	Asset Exchange
6	(7,000) OA	Asset Use
7	(2,500) FA	Asset Use

AACSB: Analytic
 AICPA BB: Critical Thinking
 AICPA FN: Reporting
 Bloom's: Application
 Bloom's: Remember
 Difficulty: Medium

Learning Objective: 02-03 Prepare financial statements based on accrual accounting.
 Learning Objective: 02-06 Classify accounting events into one of four categories:a. asset source transactions.b. asset use transactions.c. asset exchange transactions.d. claims exchange transactions.

141. Steve Sims started a consulting business on January 1, 2012, and the business engaged in the following transactions during the year:

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

Required:

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

<u>Assets</u>	=	<u>Liabilities</u>	+	<u>Equity</u>
1)				
2)				
3)				
4)				
5)				

b) Prepare an income statement and statement of cash flows for 2012.

a)

	ASSETS	=	LIABILITIE S	+	EQUITY
1)	+\$ 7,000				+\$7,000
2)	+\$25,500				+25,500
3)	- 5,000		+\$6,500		-11,500
4)	+ 9,000				
	- 9,000				
5)	- 4,000				- 4,000
Total	<u>\$23,500</u>	=	<u>\$6,500</u>	+	<u>\$17,000</u>

b)

Sims Consulting					
Income Statement					
For the Year Ended December 31, 2012					
Revenues					\$25,500
Operating Expenses					<u>11,500</u>
Net Income					<u>\$14,000</u>

Sims Consulting					
Statement of Cash Flows					
For the Year Ended December 31, 2012					
Cash Flows from Operating Activities					
Cash receipts from customers					\$9,000
Cash payment for expenses					(5,000)
Cash flow from Operating activities					<u>\$4,000</u>
Cash Flows from Investing Activities					
					\$0
Cash Flows from Financing Activities					
Cash received from owners					\$7,000
Cash distribution to owners					(4,000)
Cash flows from inesting activities					<u>3,000</u>
Net increase in cash					<u>\$7,000</u>
Plus: Beginning cash balance					-
Ending cash balance					<u>\$7,000</u>

AACSB: Analytic
AICPA BB: Critical Thinking
AICPA FN: Reporting
Bloom's: Apply
Bloom's: Synthesis
Difficulty: Hard

Learning Objective: 02-02 Organize general ledger accounts under an accounting equation.
Learning Objective: 02-03 Prepare financial statements based on accrual accounting.

142. Perez Company was founded in 2012 and engaged in the following transactions:

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

Required:

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

- a) Adjusting entries are required for transactions 2, 3, 5, and 9
- b) Adjusting entries are required at the end of an accounting period to properly match expenses with revenues. Transactions that involve deferrals and accruals require adjusting entries to bring account balances up to date.

AACSB: Analytic
AICPA BB: Critical Thinking
AICPA FN: Reporting
Bloom's: Analysis
Difficulty: Hard

Learning Objective: 02-01 Record basic accrual and deferral events in a horizontal financial statements model.
Learning Objective: 02-04 Describe the closing process; the accounting cycle; and the matching concept.

143. Thomas Corporation began business by issuing \$2,000 of common stock on January 1, 2012. The business performed \$8,000 of service on account in 2012 and collected \$6,000 of this amount by year end. It paid operating expenses of \$4,500 and paid a \$500 dividend to stockholders.

Required:

- What is the amount of total assets at the end of 2012?
- What is the amount of cash on hand at the end of 2012?
- What is the net income for 2012?
- Prepare a balance sheet for 2012.

- $+\$2,000 + \$8,000 + \$6,000 - \$6,000 - \$4,500 - \$500 = \$5,000$ Total assets
- $+\$2,000 + \$6,000 - \$4,500 - \$500 = \$3,000$ Cash on hand
- $+\$8,000 - \$4,500 = \$3,500$ Net Income
-

Thomas Corporation						
Balance Sheet						
As of December 31, 2012						
Assets						
Cash						\$ 3,000
Accounts Receivable						2,000
Total Assets						<u>\$ 5,000</u>
Liabilities and Stockholders' Equity						
Liabilities						\$0
Stockholders' Equity						
Common Stock						\$ 2,000
Retained Earnings						\$ 3,000
Total Equity						<u>\$ 5,000</u>
Total Liabilities and Stockholders' Equity						<u>\$ 5,000</u>

Bloom's: Synthesis

Difficulty: Medium

Learning Objective: 02-02 Organize general ledger accounts under an accounting equation.

Learning Objective: 02-03 Prepare financial statements based on accrual accounting.

144. The effects of Blank Company's transactions occurring during 2012 and the related end-of-year adjustments have been recorded below using the accounting equation.

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

Required:

With your knowledge of transaction analysis and the accounting equation,

- Prepare an income statement for 2012, and
- Prepare a statement of cash flows for 2012.

a)

Blank Company			
Income Statement			
For the Year Ended December 31, 2012			
Revenues (\$12,000+ \$5,000)			\$17,000
Operating Expenses (\$6,000+\$1,000)			<u>7,000</u>
Net Income			<u><u>\$10,000</u></u>

b)

Blank Company				
Statement of Cash Flows				
For the Year Ended December 31, 2012				
Cash Flows from Operating Activities				
Cash receipts from revenue				\$16,000
Cash payment for expenses				(1,200)
Cash flow from Operating activities				\$14,800
Cash Flows from Investing Activities				
Cash paid of land				(\$5,000)
Cash Flows from Financing Activities				
Cash received from issuance of stock				\$20,000
Net increase in cash				29,800
Plus: Beginning cash balance				\$0
Ending cash balance				29,800

AACSB: Analytic
 AICPA BB: Critical Thinking
 AICPA FN: Reporting
 Bloom's: Create
 Difficulty: Hard

Learning Objective: 02-03 Prepare financial statements based on accrual accounting.
 Learning Objective: 02-05 Explain how business events affect financial statements over multiple accounting cycles.

145. Hardt Corporation began business operations and experienced the following transactions during 2012:

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

Required:

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

Event	Cash	+	Accounts Rec.	=	Accounts Pay	+	Common Stock	+	Retained Earnings	Cash Flows
1										
2										
3										
4										
5										
Totals										

b) Prepare an income statement, balance sheet and statement of cash flows for 2012.

a)

	Cash	+	Acc Rec	=	Acc Pay	+	C Stk	+	Ret Earn	Cash Flows
1	10,000						10,000			10,000 FA
2			40,000					40,000		
3					18,000			(18,000)		
4	23,000		(23,000)							23,000 OA
5	(15,000)				(15,000)					(15,000) OA
Totals	18,000		17,000		3,000		10,000		22,000	18,000

b)

Hardt Corporation					
Income Statement					
For the Year Ended December 31, 2012					
Revenues				\$40,000	
Operating Expenses				<u>18,000</u>	
Net Income				<u>\$22,000</u>	
Hardt Corporation					
Balance Sheet					
As of December 31, 2012					
Assets					
Cash				\$ 18,000	
Accounts Receivable				<u>17,000</u>	
Total Assets				<u>\$ 35,000</u>	
Liabilities and Stockholders' Equity					
Liabilities					
Accounts Payable				<u>\$3,000</u>	
Stockholders' Equity					
Common Stock				\$ 10,000	
Retained Earnings				<u>\$ 22,000</u>	
Total Equity				<u>\$ 32,000</u>	
Total Liabilities and Stockholders' Equity				<u>\$ 35,000</u>	

Hardt Corporation				
Statement of Cash Flows				
For the Year Ended December 31, 2012				
Cash Flows from Operating Activities				
Cash receipts from revenue				\$23,000
Cash payment for expenses				(15,000)
Cash flow from Operating activities				\$8,000
Cash Flows from Investing Activities				
				\$0
Cash Flows from Financing Activities				
Cash received from issuance of stock				\$10,000
Net increase in cash				18,000
Plus: Beginning cash balance				\$0
Ending cash balance				18,000

AACSB: Analytic
 AICPA BB: Critical Thinking
 AICPA FN: Reporting
 Bloom's: Apply
 Bloom's: Synthesis
 Difficulty: Hard

Learning Objective: 02-01 Record basic accrual and deferral events in a horizontal financial statements model.
 Learning Objective: 02-03 Prepare financial statements based on accrual accounting.
 Learning Objective: 02-05 Explain how business events affect financial statements over multiple accounting cycles.

146. Anderson Book Company shows the following transactions for the accounting period ending December 31, 2012:

- 1) Sold books to customers for \$34,000 on account
- 2) Collected \$28,000 from customers
- 3) Issued common stock for \$8,000 cash
- 4) Prepaid four months rent for \$4,400 on October 1, 2012
- 5) Purchase supplies for \$10,500 cash
- 6) Physical count shows \$3,250 of supplies left over on December 31, 2012
- 7) Recorded adjustment for prepaid rent used up

Show how the above transactions and yearend adjustments affect the financial statement accounts on the accounting equation. After entering all the transactions and adjustments, enter column totals.

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

	Accts.	Ppd.		=	Common	Retained
Cash +	Rec. +	Rent +	Supplies		Stock +	Earnings
1)	34,000					34,000
2)	28,000	(28,000)				
3)	8,000				8,000	
4)	(4,400)	4,400				
5)	(10,500)		10,500			
6)			(7,250)			(7,250)
7)		(3,300)				(3,300)
	21,100	6,000	1,100	3,250	8,000	23,450

AICPA FN: Reporting

Bloom's: Apply

Difficulty: Medium

Learning Objective: 02-01 Record basic accrual and deferral events in a horizontal financial statements model.

Learning Objective: 02-02 Organize general ledger accounts under an accounting equation.

147. On October 1, 2012, Warren Company Consulting accepted \$20,000 in advance for a consulting job that should take 12 months. At December 31, the company had completed one fourth of the job.

Required:

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

Assets = Liabilities + Equity

Event No.

1)

2)

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

1) What amount of revenue will appear on the 2012 income statement related to these events?

2) What amounts, if any, will appear on the balance sheet at December 31, 2012?

3) What amount, if any, will appear on the 2012 statement of cash flows? In which section would the amount appear?

a)

Event No.	Assets	=	Liabilities	+	Equity
1)	+ 20,000		+ 20,000		
2)			- 5,000		+ 5,000

b)

1) \$5,000 (\$20,000 x ¼)

2) Assets = \$20,000 Liabilities = \$15,000
Equity = \$5,000

3) Cash receipt of \$20,000; operating activities

AACSB: Analytic
AICPA BB: Critical Thinking
AICPA FN: Measurement
AICPA FN: Reporting
Bloom's: Apply
Difficulty: Medium

Learning Objective: 02-02 Organize general ledger accounts under an accounting equation.
Learning Objective: 02-03 Prepare financial statements based on accrual accounting.

148. The balance in the Prepaid Rent account at the end of the year, before adjustments, was \$18,000. This amount represented six months' rent paid on November 1, 2012.

- a) What amount, if any, of Rent Expense will be shown on the 2012 income statement?
- b) What amount, if any, would be shown on the statement of cash flows for 2012? In which section would that amount appear?

a) $\$18,000 \div 6 = \$3,000 \times 2 = \$6,000$ rent expense

b) \$18,000 cash outflow or decrease for rent paid, operating activities

AACSB: Analytic
AICPA BB: Critical Thinking
AICPA FN: Measurement
AICPA FN: Reporting
Bloom's: Apply
Difficulty: Medium

Learning Objective: 02-03 Prepare financial statements based on accrual accounting.
Learning Objective: 02-05 Explain how business events affect financial statements over multiple accounting cycles.

149. On November 1, 2012, Kelly Rowan received \$2,100 in advance for services that she will perform over the next six months. Related to this transaction, list any amounts and the related accounts that will be shown on the following 2012 financial statements after adjustments.

- a) Balance Sheet
- b) Income Statement
- c) Statement of Cash Flows

a)	Balance Sheet		
	Assets	Cash	\$2,100
	Liabilities	Unearned Revenue	\$1,400
	Equity	Retained Earnings	\$ 700
b)	Income Statement		
	Revenue		\$ 700
c)	Statement of Cash Flows		
	Operating Activities		
	Cash received from clients		\$2,100

AACSB: Analytic
AICPA BB: Critical Thinking
AICPA FN: Measurement
AICPA FN: Reporting
Bloom's: Apply
Difficulty: Medium

Learning Objective: 02-03 Prepare financial statements based on accrual accounting.
Learning Objective: 02-05 Explain how business events affect financial statements over multiple accounting cycles.

150. On January 1, 2012, the balance in the Supplies account was \$6,000. During the year, \$13,500 of supplies were purchased for cash. After the year-end adjustments were prepared, the balance in the supplies account was \$8,300 on December 31, 2012.

Required:

- a) What amount of Supplies Expense will be reported on the 2012 income statement?
- b) What amount, if any will be reported on the 2012 statement of cash flows for supplies, and in what section?

- a) \$11,200 = supplies expense ($6,000 + 13,500 - 8,300 = 11,200$)
- b) \$13,500 = cash outflows from operating activities

AACSB: Analytic
AICPA BB: Critical Thinking
AICPA FN: Measurement
AICPA FN: Reporting
Bloom's: Apply
Difficulty: Medium

Learning Objective: 02-03 Prepare financial statements based on accrual accounting.
Learning Objective: 02-05 Explain how business events affect financial statements over multiple accounting cycles.