

Chapter 02

Accounting for Accruals and Deferrals

Short Answer Questions

1. 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

Jenkins Co. performed services for customers on account.

Assets	Liabilities	Equity	Revenues	Expenses	Net Income	Cash

2. 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

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

Assets	Liabilities	Equity	Revenues	Expenses	Net Income	Cash

3. 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

Sparta Co. provided \$1,600 of services for a customer who paid \$1,000 cash immediately and promised to pay an additional \$600 one month later.

Assets	Liabilities	Equity	Revenues	Expenses	Net Income	Cash

4. 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

Aztec Co. signed contracts for \$20,000 of services to be performed in the future.

Assets	Liabilities	Equity	Revenues	Expenses	Net Income	Cash

5. 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

At the end of the accounting period, Stewart Co. recognized accrued salaries.

Assets	Liabilities	Equity	Revenues	Expenses	Net Income	Cash

6. 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

Curtis Company received \$250 from a customer for services to be performed at a future date.

Assets	Liabilities	Equity	Revenues	Expenses	Net Income	Cash

7. When is revenue recognized under accrual accounting?

8. What does the balance in accounts receivable represent?

9. When are expenses recognized under accrual accounting in relation to the payment of cash?

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

11. Why are adjusting entries necessary in an accrual accounting system? What are some common examples?

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

13. What effect does providing services on account have on the statement of cash flows? The balance sheet?
14. Describe the purpose of the closing process.
15. Describe the difference between temporary and permanent accounts, and state which ones are closed.

16. Define the accounting cycle and list the stages of the cycle.
17. Explain the meaning of the term, "matching concept."
18. The temporary or nominal accounts are closed prior to the start of the next accounting cycle. In this closing process, the amounts in each of these accounts are transferred to what other account(s)?

Multiple Choice Questions

19. Bledsoe Company received \$15,000 cash from the issue of stock on January 1, 2013. During 2013 Bledsoe earned \$8,500 of revenue on account. The company collected \$6,000 cash from accounts receivable and paid \$5,400 cash for operating expenses. Based on this information alone, during 2013.
- A. Total assets increased by \$24,100.
 - B. Total assets increased by \$600.
 - C. Total assets increased by \$18,100.
 - D. Total assets did not change.
20. Adkins 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 statements?

- A. Issued common stock.
 - B. Earned cash revenue.
 - C. Earned revenue on account.
 - D. Collected cash from accounts receivable.
21. Which of the following choices accurately reflects how the recording of accrued salary expense affects a business's financial statements?

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

NA	=	+	+	-	-	-	+	=	NA	NA
----	---	---	---	---	---	---	---	---	----	----
- B.

NA	=	NA	+	+	-	NA	-	NA	=	NA	NA
----	---	----	---	---	---	----	---	----	---	----	----
- C.

NA	=	+	+	-	NA	-	+	=	-	NA
----	---	---	---	---	----	---	---	---	---	----
- D.

+	=	+	+	NA	NA	-	+	=	-	-OA
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22. Which of the following transactions does **not** involve an accrual?

- A. Recording interest earned that will be received in the next period.
- B. Recording operating expense incurred but not yet paid.
- C. Recording salary expense incurred but not yet paid.
- D. Recording the pre-payment of two years' worth of insurance.

23. Sandridge 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	-	+	=	-	- IA
----	---	---	---	---	----	---	---	---	---	------
- C.

-	=	NA	+	-	NA	-	+	=	-	NA
---	---	----	---	---	----	---	---	---	---	----
- D.

NA	=	+	+	-	NA	-	+	=	-	NA
----	---	---	---	---	----	---	---	---	---	----

24. Revenue on account amounted to \$4,000. Cash collections of accounts receivable amounted to \$2,300. Expenses for the period were \$2,100. The company paid dividends of \$450. Net income for the period was

- A. \$200.
B. \$1,450.
C. \$1,850.
D. \$1,900.

25. 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

26. Which of the following statements is true in regard to accrual accounting?

- A. Revenue is recorded only when cash is received.
B. Expenses are recorded when they are incurred.
C. Revenue is recorded in the period when it is earned.
D. Expenses are recorded when they are incurred and revenue is recorded in the period when it is earned.

27. Recognition of revenue **may** be accompanied by which of the following?

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

28. Mackie Company provided \$25,500 of services on account, and collected \$18,000 from customers during the year. The company also incurred \$17,000 of expenses on account, and paid \$15,400 against its payables. As a result of these events.
- A. total assets would increase
 - B. total liabilities would increase
 - C. total equity would increase
 - D. all of these are correct
29. Which of the following events would **not** require an end-of-year adjusting entry?
- A. Purchasing supplies for cash
 - B. Providing services on account
 - C. Purchasing a 12-month insurance policy on July 1
 - D. All of these would require an end-of-year adjustment
30. The entry to recognize work completed on unearned revenue involves which of the following?
- A. An increase in assets and a decrease in liabilities
 - B. An increase in liabilities and a decrease in equity
 - C. A decrease in assets and a decrease in liabilities
 - D. A decrease in liabilities and an increase in equity
31. Franklin Trash Removal Company received a cash advance of \$9,000 on December 1, 2013 to provide services during the months of December, January, and February. The year-end adjustment to recognize the partial expiration of the contract will
- A. increase equity by \$3,000
 - B. increase assets by \$3,000
 - C. increase liabilities by \$3,000
 - D. Increase Equity by \$3,000 and assets by \$3,000.

32. The following account balances were drawn from the 2013 financial statements of Gunn Company

Cash	\$ 4,400	Accounts payable	\$ 1,250
Accounts receivable	\$ 1,500	Common stock	?
Land	\$ 8,000	Retained earnings, Jan. 1	\$ 2,700
		Revenue	\$ 9,500
		Expenses	\$ 7,250

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

- A. \$9,950
 - B. \$7,700
 - C. \$450
 - D. \$10,400
33. Prior to closing, XYZ Company's accounting records showed the following balances:

Retained earnings	\$ 5,600
Service revenue	7,250
Interest revenue	600
Salaries expense	4,100
Operating expense	1,150
Interest expense	300
Dividends	900

After closing, XYZ's retained earnings balance would be

- A. \$5,600.
 - B. \$7,000.
 - C. \$7,900.
 - D. None of these.
34. Olaf Company began 2013 with \$600 in its supplies account. During the year, the company purchased \$1,700 of supplies on account. The company paid \$1,500 on accounts payable by year end. On December 31, 2013, Olaf counted \$700 of supplies on hand. Olaf's financial statements for 2013 would show:
- A. \$800 of supplies; \$100 of supplies expense
 - B. \$700 of supplies; \$1,600 of supplies expense
 - C. \$700 of supplies; \$1,000 of supplies expense
 - D. \$800 of supplies; \$1,700 of supplies expense

35. James Company paid \$1,800 for one year's rent in advance beginning on October 1, 2013. James's 2013 income statement would report rent expense, and its statement of cash flows would report cash outflow for rent, respectively, of
- A. \$1,800; \$1,800
 - B. \$450; \$1,800
 - C. \$450; \$450
 - D. \$300; \$1,800
36. In uncertain circumstances, the conservatism principle guides accountants to
- A. accelerate revenue recognition and delay expense recognition.
 - B. accelerate expense recognition and delay revenue recognition.
 - C. recognize expense of prepaid items when payment is made.
 - D. maximize reported net income.
37. Purchasing prepaid rent is classified as a(n):
- A. asset source transaction.
 - B. asset use transaction.
 - C. asset exchange transaction.
 - D. claims exchange transaction.
38. Revenue on account amounted to \$3,000. Cash collections of accounts receivable amounted to \$2,700. Cash paid for expenses was \$2,500. The amount of employee salaries accrued at the end of the year was \$300. Cash flow from operating activities was
- A. \$200.
 - B. \$300.
 - C. \$500.
 - D. None of these.
39. Which of the following accounts would **not** appear on a balance sheet?
- A. Unearned Revenue.
 - B. Salaries Payable.
 - C. Interest Revenue.
 - D. Retained Earnings.

40. Woodward Enterprises had the following events during 2013:

The business issued \$20,000 of common stock to its stockholders.
The business purchased land for \$12,000 cash.
Services were provided to customers for \$16,000 cash.
Services were provided to customers for \$5,000 on account.
The company borrowed \$16,000 from the bank.
Operating expenses of \$12,000 were incurred and paid in cash.
Salary expense of \$800 was accrued.
A dividend of \$4,000 was paid to the owners of Woodward Enterprises.

Assuming the company began operations during 2013, the amount of retained earnings as of December 31, 2013 would be:

- A. \$4,200
 - B. \$5,000
 - C. \$8,200
 - D. \$21,000
41. 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. Purchased supplies for cash.
 - B. Purchased land for cash.
 - C. Invested cash in an interest earning account.
 - D. All of these are correct.
42. Ruiz Company provided services for \$15,000 cash during the 2013 accounting period. Ruiz incurred \$12,000 expenses on account during 2013, and by the end of the year, \$3,000 of that amount had been paid with cash. Assuming that these are the only accounting events that affected Ruiz during 2013.
- A. The amount of net income shown on the income statement is \$3,000.
 - B. The amount of net income shown on the income statement is \$9,000.
 - C. The amount of net loss shown on the income statement is \$3,000.
 - D. The amount of net cash flow from operating activities shown on the statement of cash flows is \$6,000.

43. The following accounts and balances were drawn from the records of Hoover Company on December 31, 2013:

Cash	\$1,000	Accounts Receivable	\$850
Dividends	500	Common Stock	975
Land	800	Revenue	800
Accounts Payable	450	Expense	550

Total assets on the December 31, 2013 balance sheet would amount to:

- A. \$3,150.
 - B. \$3,450.
 - C. \$1,800.
 - D. \$2,650.
44. The following accounts and balances were drawn from the records of Hoover Company on December 31, 2013:

Cash	\$1,000	Accounts Receivable	\$850
Dividends	500	Common Stock	975
Land	800	Revenue	800
Accounts Payable	450	Expense	550

The amount of net income shown on the December 31, 2013 income statement would amount to:

- A. \$550.
 - B. \$800.
 - C. \$50.
 - D. \$250.
45. The following accounts and balances were drawn from the records of Hoover Company on December 31, 2013:

Cash	\$1,000	Accounts Receivable	\$850
Dividends	500	Common Stock	975
Land	800	Revenue	800
Accounts Payable	450	Expense	550

The amount of retained earnings as of January 1, 2014 was:

- A. \$1,475.
- B. \$1,800.
- C. \$975.
- D. \$1,225.

46. Norris Company experienced the following transactions during 2013, its first year in operation.

1. Issued \$6,000 of common stock to stockholders.
2. Provided \$2,300 of services on account.
3. Paid \$1,600 cash for operating expenses.
4. Collected \$1,900 of cash from accounts receivable.
5. Paid a \$100 cash dividend to stockholders.

The amount of net income recognized on Norris Company's 2013 income statement is:

- A. \$500.
- B. \$400.
- C. \$700.
- D. \$600.

47. Norris Company experienced the following transactions during 2013, its first year in operation.

1. Issued \$6,000 of common stock to stockholders.
2. Provided \$2,300 of services on account.
3. Paid \$1,600 cash for operating expenses.
4. Collected \$1,900 of cash from accounts receivable.
5. Paid a \$100 cash dividend to stockholders.

The amount of net cash flow from operating activities shown on Norris Company's 2013 statement of cash flows is

- A. \$200.
- B. \$300.
- C. \$700.
- D. \$600.

48. Norris Company experienced the following transactions during 2013, its first year in operation.

1. Issued \$6,000 of common stock to stockholders.
2. Provided \$2,300 of services on account.
3. Paid \$1,600 cash for operating expenses.
4. Collected \$1,900 of cash from accounts receivable.
5. Paid a \$100 cash dividend to stockholders.

The total amount of assets shown on Norris Company's December 31, 2013 balance sheet is:

- A. \$6,200.
- B. \$6,600.
- C. \$6,700.
- D. None of these.

49. Norris Company experienced the following transactions during 2013, its first year in operation.

1. Issued \$6,000 of common stock to stockholders.
2. Provided \$2,300 of services on account.
3. Paid \$1,600 cash for operating expenses.
4. Collected \$1,900 of cash from accounts receivable.
5. Paid a \$100 cash dividend to stockholders.

The amount of retained earnings appearing on Norris Company's December 31, 2013 balance sheet is:

- A. \$500.
- B. \$600.
- C. \$700.
- D. \$6,600.

50. On December 31, 2013, Farrell Co. owed \$1,500 in salaries to employees who had worked during December but would be paid in January. If the year-end adjustment is properly recorded on December 31, 2013, what will be the effect of the accrual on the following items for Farrell?

	Net Income	Cash Flow from Operating Activities
a.	No effect	No effect
b.	Decrease	No effect
c.	Increase	Decrease
d.	No effect	Decrease

- A. Option A
- B. Option B
- C. Option C
- D. Option D

51. Tocca Co. collected a \$5,000 cash advance from a customer on November 1, 2013 for work to be performed over a six-month period beginning on that date. If the year-end adjustment is properly recorded, what will be the effect on Tocca's 2013 financial statements?

- A. Increase assets and increase liabilities
- B. Increase assets and increase revenues
- C. Decrease liabilities and increase revenues
- D. No effect

52. Gonzales Company collected \$18,000 on September 1, 2013 from a customer for services to be provided over a one-year period beginning on that date. How much revenue would Gonzales Company report related to this contract on its income statement for the year ended December 31, 2013? How much would it report as cash flows from operating activities for 2013?
- A. \$6,000; \$6,000
 - B. \$6,000; \$18,000
 - C. \$18,000; \$18,000
 - D. \$0; \$18,000
53. The matching concept refers to the "matching" of:
- A. expenses and liabilities
 - B. expenses and revenues
 - C. assets and equity
 - D. assets and liabilities
54. The results of the matching process are best reported on which financial statement?
- A. Balance sheet
 - B. Income statement
 - C. Statement of changes in stockholders' equity
 - D. Statement of cash flows
55. Expenses that are matched with the period in which they are incurred are frequently called:
- A. market expenses
 - B. matching expenses
 - C. period costs
 - D. working costs
56. If retained earnings decreased during the year, and no dividends were paid, which of the following must be true?
- A. Expenses for the year exceeded revenues
 - B. The company did not have enough cash to pay its expenses
 - C. Total equity decreased
 - D. Liabilities increased during the year
57. Which of the following correctly states the proper order of the accounting cycle?
- A. Record transactions, adjust accounts, prepare statements, close temporary accounts.
 - B. Adjust accounts, record transactions, close temporary accounts, prepare statements.
 - C. Prepare statements, record transactions, close temporary accounts, adjust accounts.
 - D. Adjust accounts, prepare statements, record transactions, close temporary accounts.

58. The purpose of the accrual basis of accounting is to:
- A. Report revenue when received.
 - B. Match revenues and expenses in the proper period.
 - C. Report expenses when cash disbursements are made.
 - D. Improve the company's earnings per share.
59. Which of the following financial statement elements is closed at the end of an accounting cycle?
- A. Liabilities
 - B. Common stock
 - C. Assets
 - D. Revenues
60. Which of the following accounts is **not** closed at the end of an accounting cycle?
- A. Liabilities
 - B. Revenues
 - C. Dividends
 - D. Expenses
61. The balance in a revenue account at the beginning of an accounting period will always be
- A. equal to the amount of retained earnings for the previous period.
 - B. last period's ending balance.
 - C. higher than the previous periods beginning balance.
 - D. zero.
62. The accounting principle that guides accountants, when faced with a recognition dilemma, to choose the alternative that produces the lowest net income is referred to as
- A. the matching principle.
 - B. internal control.
 - C. conservatism.
 - D. materiality.

63. Which of the following describes the effects of a claims exchange transaction on a company's financial statements?

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

NA	=	NA	+	NA	NA	-	NA	=	NA	+ OA
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- B.

+	=	+	+	NA	NA	-	NA	=	NA	+ OA
---	---	---	---	----	----	---	----	---	----	------
- C.

NA	=	+	+	-	NA	-	+	=	-	NA
----	---	---	---	---	----	---	---	---	---	----
- D. All of these could represent the effects of a claims exchange transaction.

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

- A. Issued common stock.
- B. Paid a cash dividend to stockholders.
- C. Received a payment on accounts receivable.
- D. Accrued salary expense.

65. Which of the following is an asset use transaction?

- A. Purchased machine for cash.
- B. Recorded supplies expense at the end of the period.
- C. Invested cash in an interest earning account.
- D. Accrued salary expense.

66. Which of the following is a claims exchange transaction?

- A. Purchased machine for cash.
- B. Issued common stock.
- C. Invested cash in an interest earning account.
- D. Recognized revenue earned on a contract where the cash had been collected at an earlier date.

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

- A. Issued common stock.
- B. Accrued salary expense at the end of the accounting period.
- C. Recognized revenue earned on a contract where the cash had been collected at an earlier date.
- D. Collected cash on accounts receivable

68. Earning revenue on account would be classified as a/an:

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

Essay Questions

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

- _____ a) The recognition of accounting events and the realization of cash consequences may occur in different accounting periods.
- _____ b) The cash consequence of a transaction always precedes its accounting recognition.
- _____ c) Expenses may either be matched to revenues they produce or to periods in which they are incurred.
- _____ d) Kenyon may record accrual transactions, but may not record deferral transactions.
- _____ e) Kenyon is not permitted to make cash sales.

70. Whetstone Co. performed services for a customer on account. Indicate whether each of the following statements about this transaction is true or false.

- ☐ a) Assets and equity both increase when the revenue is recognized.
- ☐ b) This transaction did not affect cash flows.
- ☐ c) The company recorded an increase in revenue and a decrease in accounts receivable.
- ☐ d) Recognition of revenue would be delayed until cash was received.
- ☐ e) This transaction is an example of an asset source transaction.

71. Dandridge Company collected cash in 2012 from a customer for services to be performed beginning January 2013. Indicate whether each of the following statements about this transaction is true or false.

- ☐ a) Dandridge's 2012 income statement would not be affected by this transaction.
- ☐ b) Dandridge's 2012 statement of cash flows would be affected by this transaction.
- ☐ c) This transaction is an asset exchange transaction.
- ☐ d) The revenue for the services provided will be recorded in 2013.
- ☐ e) This transaction is considered an accrual transaction.

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

- _____ a) Recording an increase in a revenue account may be associated with an increase in assets.
- _____ b) Recording an increase in a revenue account may be associated with a decrease in liabilities.
- _____ c) An increase in Salaries Expense may be accompanied by a decrease in Salaries Payable.
- _____ d) Recording a decrease in assets may be associated with an increase in an expense account.
- _____ e) An increase in Supplies may be accompanied by an increase in Supplies Expense.

73. Wyatt Company paid \$57,000 in January 2013 for salaries that had been earned by employees in December 2012. Indicate whether each of the following statements about financial statement effects of the January 2013 event is true or false.

- _____ a) The income statement for 2013 is not affected because the salaries expense had been recognized at the end of December.
- _____ b) On the 2013 statement of cash flows, cash flows from operating activities decreased.
- _____ c) Payment of the salaries in 2013 decreased a liability.
- _____ d) The 2013 statement of changes in stockholders' equity would not be affected because the salaries expense had been recognized at the end of December.
- _____ e) Both assets and equity decreased as a result of this transaction.

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

- ☐ a) The closing process transfers certain account balances to retained earnings at the end of the accounting cycle.
- ☐ b) Only accounts that appear on the income statement are closed at the end of each accounting cycle.
- ☐ c) Another name for permanent accounts is "nominal accounts."
- ☐ d) The permanent accounts contain information that is cumulative in nature.
- ☐ e) The retained earnings balance at the end of any given year is equal to that year's net income.

75. Regarding the effects of end-of-period adjustments, state whether each of the following statements is true or false.

- ☐ a) Recording the usage of supplies involves a decrease in assets and a decrease in equity.
- ☐ b) The accrual of salaries is considered a claims exchange transaction.
- ☐ c) Recording services performed on a prepaid contract involves a decrease in liabilities and an increase in assets.
- ☐ d) End of period adjustments never affect cash flows.
- ☐ e) Failure to record accrued salaries at the end of the year will cause reported income to be higher than it should have been.

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

True / False Questions

77. The term "recognition" means to report an economic event in the financial statements.
- True False
78. Companies that use accrual accounting recognize revenues and expenses at the time that cash is paid or received.
- True False
79. The term "accrual" describes an earnings event that is recognized after cash is paid or received.
- True False
80. A company may recognize a revenue or expense without a corresponding cash collection or payment in the same accounting period.
- True False
81. A payment to an employee in settlement of salaries payable decreases an asset and decreases a liability.
- True False

82. An increase in an expense may be accompanied by an increase in a liability.
True False
83. Revenues and liabilities are temporary accounts.
True False
84. In the closing process, the amounts in temporary accounts are moved to retained earnings, a permanent account.
True False
85. Accounts that are closed include expenses, dividends, and unearned revenues.
True False
86. After closing, only balance sheet accounts have non-zero balances.
True False
87. Two of the steps in the accounting cycle are adjusting the accounts and closing the accounts.
True False
88. Cash-basis accounting often fails to match expenses with revenues.
True False
89. The matching concept leads accountants to select the recognition alternative that produces the lowest amount of net income.
True False
90. Adjusting entries never affect a business's cash account.
True False
91. Asset use transactions always involve the payment of cash.
True False
92. Providing services to customers on account is an asset source transaction.
True False
93. An adjusting entry that decreases unearned revenue and increases service revenue is a claims exchange transaction.
True False
94. Sometimes the recognition of revenue is accompanied by an increase in liabilities.
True False

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

True False

Essay Questions

96. Houston Company began business operations and experienced the following transactions during 2013:

- 1) Issued common stock for \$20,000 cash.
- 2) Provided services to customers for \$50,000 on account.
- 3) Purchased \$1,000 of supplies on account.
- 4) Paid \$12,000 cash to rent office space for a 12-month period beginning July 1.
- 5) Collected \$46,000 cash from customers.
- 6) Paid cash for \$36,000 of operating expenses.
- 7) Adjusted the accounting records to reflect that there was \$300 of supplies remaining on hand at year-end.
- 8) Recorded an end-of-year adjustment to recognize rent expense.

Required:

- a) Record the above transactions on a horizontal statements model, reflecting their effect on the different financial statements.
- b) Prepare Houston Company's income statement, balance sheet and statement of cash flows for the year ended December 31, 2013.

97. The following transactions apply to Brunswick Corporation.

- a) Issued common stock for \$35,000 cash.
- b) Provided services to customers for \$18,000 on account.
- c) Purchased land for \$18,000 cash.
- d) Purchased \$500 of supplies on account.
- e) Paid \$9,000 for operating expenses.
- f) Paid \$450 on accounts payable.
- g) Collected \$15,000 cash from customers.
- h) Accrued \$400 of salary expense at year end.
- i) Paid \$2,500 dividends to stockholders.

Required:

- a) Identify the effect on the statement of cash flows for each of the above transactions.
- b) Classify the above accounting events into one of four types of transactions (asset source, asset use, asset exchange, claims exchange).

98. Record each of the following events in the horizontal statements model. After each event, record the corresponding **end-of-year adjustment** that would be necessary.

- a) Paid \$18,000 for a 1-year lease beginning April 1.
- b) Paid \$1,500 to purchase supplies. At year end, \$540 of supplies remained.
- c) Received a \$24,000 cash advance for a 6-month contract beginning on Sept. 1.

99. The following data were taken from the accounting records of Lorenzo Company. Except where indicated, the balances are as of December 31, 2013 before closing entries have been made.

Service revenue	\$ 83,000
Retained earnings	47,500
Accounts receivable	13,250
Salaries expense	44,000
Operating expense	7,700
Accounts payable	11,400
Supplies expense	380
Prepaid rent	2,000
Common stock	45,000
Supplies	200
Dividends	1,200
Insurance expense	800
Rent expense	10,000
Unearned revenue	765

Required:

- List the accounts that should be closed at the end of 2013.
- Prepare an income statement for Lorenzo Company for 2013.
- What is the balance in retained earnings after closing entries have been made?

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

- 1) ___ Purchased supplies on account.
- 2) ___ Recorded the accrual of \$1,000 in salaries to be paid later.
- 3) ___ Issued common stock for \$20,000 in cash.
- 4) ___ Earned revenue to be collected next year.
- 5) ___ Paid \$2,000 in dividends to its stockholders.
- 6) ___ Received cash from customers in #4 above.
- 7) ___ Paid the salaries accrued in #2 above.
- 8) ___ Received \$500 from a customer for services to be provided later.

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

- 1) ___ Made adjusting entry to recognize interest revenue on investments.
- 2) ___ Borrowed funds from the bank.
- 3) ___ Paid rent in advance for the next six months.
- 4) ___ Paid cash to settle accrued salary expense.
- 5) ___ Purchased supplies on account.
- 6) ___ Collected accounts receivable.
- 7) ___ Sold land.

102. Jack Grimes started a consulting business, Grimes Consulting, on January 1, 2013 by issuing \$7,000 of common stock. In addition, the following events occurred in 2013.

Provided services on account, \$25,500.

Paid cash for \$11,500 in operating expenses.

Collected \$9,000 of the revenue that was previously recorded on account.

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 + Common Stock + Retained Earnings

1)

2)

3)

4)

5)

b) Prepare an income statement and statement of cash flows for 2013.

103. Thiessen Company started its business by issuing \$7,000 of common stock on January 1, 2013. The company performed \$18,000 of service for customers on account in 2013. It collected \$12,500 of this amount in 2013, recorded expenses on account of \$14,500, paid \$11,000 of the payables owed, and paid a \$300 dividend to the stockholders.

Required:

- a) What is the amount of total assets at the end of 2013?
- b) What is the amount of cash on hand at the end of 2013?
- c) What is the net income for 2013?
- d) Prepare a balance sheet for 2013.

104. The Ping Corporation was started on January 1, 2013, with the issuance of \$20,000 of stock. During 2013, the company provided \$30,000 of services on account and collected \$18,000 of that amount. Ping incurred \$23,000 of expenses, and paid \$20,000 of that amount during 2013. On December 31, 2013, Ping paid investors a \$800 cash dividend and accrued \$2,000 of salary expense.

Required:

- 1) What is the net income for year ending December 31, 2013?
- 2) Prepare Ping Corporation's Statement of Cash Flows for the year ended December 31, 2013.
- 3) What is the balance in Ping's retained earnings account after closing entries are made on December 31, 2013?

105. Consider the following independent scenarios:

a) At January 1, 2013, accounts receivable was \$22,000. Cash collected on accounts receivable during 2011 was \$15,000. At December 31, 2011, accounts receivable was \$30,000.

What were the revenues earned on account during 2011?

b) At January 1, 2013, accounts payable was \$19,000. During 2013, expenses on account were \$28,000. At December 31, 2013, accounts payable was \$15,000.

What was the amount of cash paid on accounts payable during 2013?

c) At January 1, 2013, the balance in the prepaid insurance account was \$480. On March 1, 2013, the company paid \$2,940 for insurance coverage for the next 12 months. What was the amount of insurance expense for 2013?

d) At January 1, 2013, the balance in the supplies account was \$550. At December 31, 2013, the company counted \$600 of supplies on hand. The company reported supplies expense in 2013 of \$2,300. What was the total of supplies purchases during 2013?

106. Washington Co. began operations on January 1, 2013, by issuing \$10,000 in common stock to the stockholders. On March 1, 2013, Washington accepted an advance of \$18,000 to provide services for a one-year period beginning April 1. During 2013, services in the amount of \$16,000 were provided to customers on account, and 80% of this amount was collected by year-end. During 2013, operating expenses incurred on account were \$12,000, and 60% of this amount was paid by year-end. During the year, Washington paid \$600 to purchase supplies. By year-end, \$540 of the supplies had been used. Dividends to stockholders were \$1,000 during the year. During 2013, Washington paid salaries of \$14,000, and on December 31, 2013, the company accrued salaries of \$1,400.

Washington recorded all appropriate adjusting entries at year end.

1) What would Washington report for service revenue for 2013?

2) What would Washington report for salaries expense for 2013?

3) What would Washington report for supplies expense for 2013?

4) What would the amount be for net cash flows from operating activities for 2013?

5) What is the net income for 2013?

6) What would the balance in the retained earnings account be at December 31, 2013?

107. In a company's annual report, the reader will find a company's income statement, statement of changes in stockholder's 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 has against its assets?
- 5) What was the total amount of cash received by the issuance of common stock?
- 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?

108. The following events apply to Bowen's Cleaning Service for 2013.

- 1) Issued stock for \$14,000 cash.
- 2) On May 1, paid \$9,000 for one year's rent in advance.
- 3) Purchased on account \$2,500 of supplies to be used in the business.
- 4) Performed services of \$18,400 and received cash.
- 5) At December 31, an inventory of supplies showed that \$360 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. Show the year-end total for each account.

109. Using the form below, record each of the following 2013 transactions for Morris 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.														

110. 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?

111. The following transactions apply to Kent Company.

- 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 account
- 5) Collected \$15,000 cash from customers for services provided in event #2
- 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		

112. Danielle McLynn started a consulting business, McLynn Consulting, on January 1, 2013, and the business engaged in the following transactions during the year:

1. Issued \$8,000 of common stock for cash
2. Provided services on account, \$26,500
3. Incurred \$17,500 of operating expense, but only paid \$12,000 of this amount
4. Collected \$19,000 of the revenue that was previously recorded on account
5. Paid a cash dividend of \$4,500 to the stockholders

Required:

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

Event	Assets	=	Liabilities	+	Common Stock	+	Retained Earnings
1							
2							
3							
4							
5							
Totals							

b) Prepare an income statement and statement of cash flows for 2013.

113. Patterson Company was founded in 2013 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) Which of the above transactions would require adjusting entries at year end?
- b) Why are adjusting entries required before financial statements can be prepared.

114. Jerry Mathers started his business by issuing \$4,000 of common stock on January 1, 2013. Jerry performed \$8,500 of service on account in 2013, and he collected \$6,200 of this amount by year end. He paid operating expenses of \$6,900 and paid a \$900 dividend to the stockholders.

Required:

- a) What is the amount of total assets at the end of 2013?
- b) What is the amount of cash on hand at the end of 2013?
- c) What is net income for 2013?
- d) Prepare a balance sheet for 2013.

115. The effects of transactions occurring during 2013 and their related end-of-year adjustments have been recorded below using the accounting equation.

	Assets				=	Liab		+	Stockholders' Equity		
	Cash	AR	Ppd. Ins.	Land		AP	Uneram. Rev.		CS	+	RE
1	40,000								40,000		
2	(10,000)			10,000							
3		24,000									24,000
4	16,000						16,000				
5	16,000	(16,000)									
6	(2,400)		2,400								
7						12,000					(12,000)
8	10,000			(10,000)							
9			(2,000)								(2,000)
10							(10,000)				10,000
Totals	\$ 69,600	\$ 8,000	\$ 400	\$ -		\$ 12,000	\$ 6,000		\$ 40,000		\$ 20,000

Required:

With your knowledge of transaction analysis using an accounting equation,

- Prepare an income statement for 2013, and
- Prepare a statement of cash flows for 2013.

116. Kramer Corporation began business operations and experienced the following transactions during 2013:

- 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 account.
- 4) Collected \$23,000 cash from customers.
- 5) Paid \$15,000 on accounts payable.

Required:

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

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

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

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

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

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

119. Tuttle Company shows the following transactions for the accounting period ending December 31, 2013:

- 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, 2013
- 5) Purchase supplies for \$10,500 cash
- 6) Physical count shows \$3,250 of supplies left over on December 31, 2013
- 7) Recorded adjustment for prepaid rent used

Show how the above transactions and year end adjustments affect the financial statements on the accounting equation:

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

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

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

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

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

122. Giambrone Corporation began business operations and experienced the following transactions during 2013:

- 1) Issued common stock for \$15,000 cash.
- 2) Issued a \$10,000, 6% 4-year note to the bank on February 1.
- 3) Provided services to customers for \$40,000 cash.
- 4) Paid \$19,000 for operating expenses.
- 5) Accrued interest expense on the note.
- 6) Paid a \$2,000 dividend to shareholders.

Required:

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

	Assets	=	Liabilities		+	Stockholders' Equity		Revenue	-	Expense	=	NI	Cash Flow	
	Cash		Notes Payable	Interest Payable		Common Stock	Retained Earnings							
1														
2														
3														
4														
5														
6														
Totals														

Chapter 02 Accounting for Accruals and Deferrals **Answer Key**

Short Answer Questions

1. 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

Jenkins Co. performed services for customers on account.

Assets	Liabilities	Equity	Revenues	Expenses	Net Income	Cash

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

Feedback: Performing services on account increases assets (accounts receivable) and increases revenue, which increases net income and equity (retained earnings). It does not affect the statement of cash flows, as it does not affect cash.

AACSB: Analytic
AICPA BB: Critical Thinking
AICPA FN: Measurement
Blooms: Understand
Difficulty: 1 Easy

Learning Objective: 02-01 Show how receivables affect financial statements
Topic: Accounting for accounts receivable

2. 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

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

Assets	Liabilities	Equity	Revenues	Expenses	Net Income	Cash

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

Feedback: Collecting on accounts receivable increases one asset (cash) and decreases another asset (accounts receivable). It does not affect the income statement, but is reported as a cash inflow for operating activities on the statement of cash flows.

AACSB: Analytic
AICPA BB: Critical Thinking
AICPA FN: Measurement
Blooms: Understand
Difficulty: 1 Easy

Learning Objective: 02-01 Show how receivables affect financial statements
Topic: Accounting for accounts receivable

3. 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

Sparta Co. provided \$1,600 of services for a customer who paid \$1,000 cash immediately and promised to pay an additional \$600 one month later.

Assets	Liabilities	Equity	Revenues	Expenses	Net Income	Cash

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

Feedback: This event increases revenue, net income and equity (retained earnings) by \$1,600. Cash increases by \$1,000 and accounts receivable increases by \$600, which result in an increase in assets of \$1,600. It is reported as a \$1,000 cash inflow for operating activities on the statement of cash flows.

AACSB: Analytic

AICPA BB: Critical Thinking

AICPA FN: Measurement

Blooms: Understand

Difficulty: 2 Medium

Learning Objective: 02-01 Show how receivables affect financial statements

Topic: Accounting for accounts receivable

4. 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

Aztec Co. signed contracts for \$20,000 of services to be performed in the future.

Assets	Liabilities	Equity	Revenues	Expenses	Net Income	Cash

(N) (N) (N) (N) (N) (N) (N)

Feedback: This event does not affect the financial statements at all. Revenue is recorded when services are performed, not when the contract is signed.

AACSB: Analytic

AICPA BB: Critical Thinking

AICPA FN: Measurement

Blooms: Understand

Difficulty: 3 Hard

Learning Objective: 02-01 Show how receivables affect financial statements

Topic: Other events

5. 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

At the end of the accounting period, Stewart Co. recognized accrued salaries.

Assets	Liabilities	Equity	Revenues	Expenses	Net Income	Cash

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

Feedback: Accruing salaries expense increases liabilities (salaries payable) and it increases expenses, which decreases net income and equity (retained earnings). It does not affect the statement of cash flows.

AACSB: Analytic
AICPA BB: Critical Thinking
AICPA FN: Measurement
Blooms: Understand
Difficulty: 1 Easy

Learning Objective: 02-02 Show how payables affect financial statements
Topic: Accounting for salary expense

6. 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

Curtis Company received \$250 from a customer for services to be performed at a future date.

Assets	Liabilities	Equity	Revenues	Expenses	Net Income	Cash

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

Feedback: Collecting a payment in advance from a customer increases assets (cash) and increases liabilities (unearned revenue). It does not affect the income statement. Revenue will not be recognized until the services are provided. It will be reported as a cash inflow from operating activities on the statement of cash flows.

AACSB: Analytic
AICPA BB: Critical Thinking
AICPA FN: Measurement

Blooms: Understand
Difficulty: 1 Easy
Learning Objective: 02-05 Show how unearned revenues affect financial statements
Topic: Accounting for unearned revenues

7. When is revenue recognized under accrual accounting?

Revenue is recognized when it is earned; i.e. when the services are performed.

Feedback: Accrual accounting requires that companies recognize revenue when work is done regardless of when cash is collected.

AACSB: Analytic
AICPA BB: Critical Thinking
AICPA FN: Reporting
Blooms: Understand
Difficulty: 1 Easy
Learning Objective: 02-01 Show how receivables affect financial statements
Topic: Accounting for accounts receivable

8. What does the balance in accounts receivable represent?

The balance in accounts receivable represents the amount of future cash receipts that is due from customers. In other words, it is the amount to be collected from customers who previously received goods or services on account.

Feedback: Accounts receivable is an asset account because it represents something that is owed to the company.

AACSB: Analytic
AICPA BB: Critical Thinking
AICPA FN: Measurement
Blooms: Understand
Difficulty: 2 Medium
Learning Objective: 02-01 Show how receivables affect financial statements
Topic: Accounting for accounts receivable

9. When are expenses recognized under accrual accounting in relation to the payment of cash?

Expenses are recognized when they are incurred, regardless of when cash is paid. In accrual transactions, that means that expenses are recorded before cash payments, and in deferral transactions they are recorded after cash payments.

Feedback: Expenses are recognized when incurred, regardless of when payment is made.

AACSB: Analytic
AICPA BB: Critical Thinking
AICPA FN: Reporting
Blooms: Understand

Difficulty: 2 Medium
Learning Objective: 02-02 Show how payables affect financial statements
Learning Objective: 02-05 Show how unearned revenues affect financial statements
Topic: Accounting for accounts payable
Topic: Accounting for unearned revenues

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

Assets decrease; liabilities decrease

Feedback: Making a cash payment to creditors decreases assets (cash) and decreases liabilities (accounts payable).

AACSB: Analytic
AICPA BB: Critical Thinking
AICPA FN: Measurement
Blooms: Understand
Difficulty: 2 Medium
Learning Objective: 02-02 Show how payables affect financial statements
Topic: Accounting for salary expense

11. Why are adjusting entries necessary in an accrual accounting system? What are some common examples?

Adjusting entries are necessary in order to recognize revenues and expenses that should be recognized in the current year, but have not yet been recorded. Some common adjusting entries include recognizing accrued salaries expense, accrued interest revenue, and deferred expenses, such as prepaid rent, as well as recognizing revenue that had been previously unearned.

Feedback: The Matching Principle requires adjusting entries in certain transactions in order to recognize revenues and expenses in the proper accounting period. These adjusting entries are made at the end of the period.

AACSB: Analytic
AICPA BB: Critical Thinking
AICPA FN: Measurement
Blooms: Understand
Difficulty: 2 Medium
Learning Objective: 02-06 Explain the accounting cycle including adjustments and the closing process
Topic: Adjusting Entries

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

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

Feedback: If revenue is earned at the same time cash is collected, cash is increased. If revenue is earned on account, and a customer is billed, accounts receivable is increased. A less common situation involves earning revenue after cash was received in advance, in which case assets are unaffected (liabilities decrease and equity increases).

AACSB: Analytic
AICPA BB: Critical Thinking
AICPA FN: Measurement
Blooms: Understand
Difficulty: 1 Easy

Learning Objective: 02-01 Show how receivables affect financial statements
Topic: Accounting for accounts receivable

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

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

Feedback: Providing services on account does not affect the cash account; therefore the statement of cash flows is unaffected. The asset accounts receivable increases as does equity (revenue increases retained earnings).

AACSB: Analytic
AICPA BB: Critical Thinking
AICPA FN: Reporting
Blooms: Understand
Difficulty: 2 Medium

Learning Objective: 02-01 Show how receivables affect financial statements
Topic: Accounting for accounts receivable

14. Describe the purpose of the closing process.

The purpose of the closing process is to bring the balance of the nominal (temporary) accounts to zero at the end of an accounting period and to update the retained earnings account.

Feedback: Closing entries are made after the income statement is prepared. Note that retained earnings is only affected by revenues, expenses, and dividends as the result of the closing process.

AACSB: Analytic
AICPA BB: Critical Thinking
AICPA FN: Measurement
Blooms: Understand

15. Describe the difference between temporary and permanent accounts, and state which ones are closed.

Temporary (nominal) accounts (revenues, expenses and dividends) collect information about a single period only; they are closed at the end of that period. Permanent accounts include the balance sheet accounts (assets, liabilities, common stock and retained earnings), and their balances roll forward each year rather than being closed out.

Feedback: Revenue and expense accounts appear on the income statement. Dividends is also a temporary account, but is not reported on the income statement. It is reported only on the statement of changes in equity. All permanent accounts appear on the balance sheet.

16. Define the accounting cycle and list the stages of the cycle.

The accounting cycle is a series of steps or procedures that occur repeatedly throughout the life of a business. The three stages described to this point in the course include

- (1) recording transactions
- (2) preparing statements and
- (3) closing temporary accounts.

Feedback: The accounting cycle repeats every accounting period. This is usually annually.

17. Explain the meaning of the term, "matching concept."

The "matching concept" refers to the process of "matching" the expenses with the revenues that they produce in the appropriate time period. This matching is largely done through the adjusting process. For example, the accrual of salary expense has the effect of matching the correct portion of salary expense to the accounting period in which the employees contributed to producing revenue. Matching means that expenses should be recognized in the same accounting period as the revenues that they helped a business to earn.

Feedback: The matching concept is the foundation of accrual accounting - the recognition of revenues as they are earned and expenses as they are incurred, regardless of when cash is exchanged.

AACSB: Analytic
AICPA BB: Critical Thinking
AICPA FN: Measurement
Blooms: Understand
Difficulty: 2 Medium
Topic: The Matching Concept

Learning Objective: 02-06 Explain the accounting cycle including adjustments and the closing process

18. The temporary or nominal accounts are closed prior to the start of the next accounting cycle. In this closing process, the amounts in each of these accounts are transferred to what other account(s)?

Retained Earnings

Feedback: Closing revenues increases retained earnings. Closing expenses and dividends decreases retained earnings. Note that closing entries are the only transactions that directly involve the retained earnings account.

AACSB: Analytic
AICPA BB: Critical Thinking
AICPA FN: Measurement
Blooms: Remember
Difficulty: 1 Easy
Topic: The Closing Process

Learning Objective: 02-06 Explain the accounting cycle including adjustments and the closing process

Multiple Choice Questions

19. Bledsoe Company received \$15,000 cash from the issue of stock on January 1, 2013. During 2013 Bledsoe earned \$8,500 of revenue on account. The company collected \$6,000 cash from accounts receivable and paid \$5,400 cash for operating expenses. Based on this information alone, during 2013.

- A. Total assets increased by \$24,100.
- B. Total assets increased by \$600.
- C. Total assets increased by \$18,100.**
- D. Total assets did not change.

$\$15,000 \text{ (cash)} + \$8,500 \text{ (accounts receivable)} + \$6,000 \text{ (cash)} - \$6,000 \text{ (accounts receivable)} - \$5,400 \text{ (cash)} = \$18,100 \text{ increase}$

AACSB: Analytic
AICPA BB: Critical Thinking
AICPA FN: Measurement
Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: 2 Medium

Learning Objective: 02-01 Show how receivables affect financial statements
Topic: Accounting for accounts receivable

20. Adkins 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 statements?

- A. Issued common stock.
- B. Earned cash revenue.
- C. Earned revenue on account.**
- D. Collected cash from accounts receivable.

Earning revenue on account increases assets (accounts receivable) and increases revenue, which increases net income and equity (retained earnings). It does not affect cash flows.

AACSB: Analytic
AICPA BB: Critical Thinking
AICPA FN: Measurement
Blooms: Understand
Difficulty: 2 Medium

Learning Objective: 02-01 Show how receivables affect financial statements
Topic: Accounting for accounts receivable

21. Which of the following choices accurately reflects how the recording of accrued salary expense affects a business's financial statements?

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

- A.

NA	=	+	+	-	-	-	+	=	NA	NA
----	---	---	---	---	---	---	---	---	----	----
- B.

NA	=	NA	+	+	-	NA	-	NA	=	NA	NA
----	---	----	---	---	---	----	---	----	---	----	----
- C.**

NA	=	+	+	-	NA	-	+	=	-	NA
----	---	---	---	---	----	---	---	---	---	----
- D.

+	=	+	+	NA	NA	-	+	=	-	-OA
---	---	---	---	----	----	---	---	---	---	-----

Accruing salary expense increases liabilities (salaries payable) and increases expenses, which decreases net income and equity (retained earnings). It does not affect cash flows.

AACSB: Analytic
AICPA BB: Critical Thinking
AICPA FN: Measurement
Blooms: Understand
Difficulty: 2 Medium

Learning Objective: 02-02 Show how payables affect financial statements
Topic: Accounting for salary expense

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

- A. Recording interest earned that will be received in the next period.
- B. Recording operating expense incurred but not yet paid.
- C. Recording salary expense incurred but not yet paid.
- D.** Recording the pre-payment of two years' worth of insurance.

Recording the pre-payment of two years' worth on insurance involves a deferral, not an accrual. A deferral occurs when cash changes hands before revenue or expense is recognized. All other choices are accruals: interest receivable, accounts payable, and salaries payable.

AACSB: Analytic
AICPA BB: Critical Thinking
AICPA FN: Measurement
Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: 3 Hard

Learning Objective: 02-04 Show how prepaid items affect financial statements.
Topic: Prepaid items

23. Sandridge 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	-	+	=	-	- IA
----	---	---	---	---	----	---	---	---	---	------
- C.

-	=	NA	+	-	NA	-	+	=	-	NA
---	---	----	---	---	----	---	---	---	---	----
- D.**

NA	=	+	+	-	NA	-	+	=	-	NA
----	---	---	---	---	----	---	---	---	---	----

Accruing salaries expense increases liabilities (salaries payable) and increases expenses, which decreases net income and equity (retained earnings). It does not affect cash flows.

AACSB: Analytic
AICPA BB: Critical Thinking
AICPA FN: Measurement
Blooms: Understand
Difficulty: 2 Medium

Learning Objective: 02-02 Show how payables affect financial statements
Topic: Accounting for salary expense

24. Revenue on account amounted to \$4,000. Cash collections of accounts receivable amounted to \$2,300. Expenses for the period were \$2,100. The company paid dividends of \$450. Net income for the period was

- A. \$200.
B. \$1,450.
C. \$1,850.
D. \$1,900.

Revenue \$4,000 - Expenses \$2,100 = \$1,900 Net Income

AACSB: Analytic
AICPA BB: Critical Thinking
AICPA FN: Measurement
Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: 2 Medium

Learning Objective: 02-01 Show how receivables affect financial statements
Topic: Accounting for accounts receivable

25. 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

Recognizing an expense may be accompanied by an increase in liabilities (i.e. accounts payable, salaries payable) or a decrease in assets (i.e. cash, prepaid rent or insurance).

AACSB: Analytic
AICPA BB: Critical Thinking
AICPA FN: Measurement
Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: 2 Medium
Learning Objective: 02-02 Show how payables affect financial statements
Topic: Accounting for payables

26. Which of the following statements is true in regard to accrual accounting?

- A. Revenue is recorded only when cash is received.
- B. Expenses are recorded when they are incurred.
- C. Revenue is recorded in the period when it is earned.
- D.** Expenses are recorded when they are incurred and revenue is recorded in the period when it is earned.

Revenue is recognized when earned and expenses are recognized when incurred, regardless of when cash is exchanged.

AACSB: Analytic
AICPA BB: Critical Thinking
AICPA FN: Measurement
Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: 2 Medium
Learning Objective: 02-01 Show how receivables affect financial statements
Learning Objective: 02-02 Show how payables affect financial statements
Topic: Accounting for Accruals

27. Recognition of revenue **may** be accompanied by which of the following?

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

Recognizing revenue may be accompanied by either an increase in assets (cash or accounts receivable) or a decrease in liabilities (unearned revenue).

AACSB: Analytic

AICPA BB: Critical Thinking
AICPA FN: Measurement
Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: 3 Hard

Learning Objective: 02-02 Show how payables affect financial statements
Learning Objective: 02-05 Show how unearned revenues affect financial statements
Topic: Accounting for payables
Topic: Accounting for unearned revenues

28. Mackie Company provided \$25,500 of services on account, and collected \$18,000 from customers during the year. The company also incurred \$17,000 of expenses on account, and paid \$15,400 against its payables. As a result of these events.

- A. total assets would increase
- B. total liabilities would increase
- C. total equity would increase
- D. all of these are correct**

$\$25,500 - \$15,400 = \$10,100$ increase in assets; $\$17,000 - \$15,400 = \$1,600$ increase in liabilities; $\$25,500 - \$17,000 = \$8,500$ increase in equity

AACSB: Analytic
AICPA BB: Critical Thinking
AICPA FN: Measurement
Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: 3 Hard

Learning Objective: 02-01 Show how receivables affect financial statements
Learning Objective: 02-02 Show how payables affect financial statements
Topic: Accounting for accounts receivable
Topic: Accounting for payables

29. Which of the following events would **not** require an end-of-year adjusting entry?

- A. Purchasing supplies for cash
- B. Providing services on account**
- C. Purchasing a 12-month insurance policy on July 1
- D. All of these would require an end-of-year adjustment

Providing services on account does not require an end-of-year adjusting entry. Accounts receivable is increased when services are provided on account and is decreased when payment is received from customers. Supplies and prepaid insurance both require end-of-year adjusting entries to recognize expense.

AACSB: Analytic
AICPA BB: Critical Thinking
AICPA FN: Measurement
Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: 3 Hard

Learning Objective: 02-01 Show how receivables affect financial statements
Topic: Accounting for accounts receivable

30. The entry to recognize work completed on unearned revenue involves which of the following?

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

Recognizing work completed on unearned revenue involves a decrease in liabilities (unearned revenue) and an increase in equity (retained earnings as a result of revenue).

AACSB: Analytic
AICPA BB: Critical Thinking
AICPA FN: Measurement
Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: 2 Medium

Learning Objective: 02-05 Show how unearned revenues affect financial statements
Topic: Accounting for unearned revenues

31. Franklin Trash Removal Company received a cash advance of \$9,000 on December 1, 2013 to provide services during the months of December, January, and February. The year-end adjustment to recognize the partial expiration of the contract will

- A. increase equity by \$3,000**
- B. increase assets by \$3,000
- C. increase liabilities by \$3,000
- D. Increase Equity by \$3,000 and assets by \$3,000.

The year-end adjustment to recognize one month's work on the three-month contract results in a \$3,000 decrease in liabilities (unearned revenue) and an increase in equity (retained earnings due to recognizing revenue).

AACSB: Analytic
AICPA BB: Critical Thinking
AICPA FN: Measurement
Accessibility: Keyboard Navigation
Blooms: Apply
Difficulty: 2 Medium

Learning Objective: 02-05 Show how unearned revenues affect financial statements
Topic: Accounting for unearned revenues

32. The following account balances were drawn from the 2013 financial statements of Gunn Company

Cash	\$ 4,400	Accounts payable	\$ 1,250
Accounts receivable	\$ 1,500	Common stock	?
Land	\$ 8,000	Retained earnings, Jan. 1	\$ 2,700
		Revenue	\$ 9,500
		Expenses	\$ 7,250

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

- A. \$9,950
- B. \$7,700**
- C. \$450
- D. \$10,400

Assets (\$4,400 + \$1,500 + \$8,000) = Liabilities (\$1,250) + Equity; Equity = \$12,650; \$12,650 = Common Stock + Retained Earnings (\$2,700 + \$9,500 - \$7,250); \$12,650 = Common Stock + \$4,950; Common Stock = \$7,700

AACSB: Analytic
AICPA BB: Critical Thinking
AICPA FN: Measurement
Blooms: Analyze
Difficulty: 2 Medium
Learning Objective: 02-07 Prepare financial statements based on accrual accounting
Topic: The Balance Sheet

33. Prior to closing, XYZ Company's accounting records showed the following balances:

Retained earnings	\$ 5,600
Service revenue	7,250
Interest revenue	600
Salaries expense	4,100
Operating expense	1,150
Interest expense	300
Dividends	900

After closing, XYZ's retained earnings balance would be

- A. \$5,600.
B. \$7,000.
C. \$7,900.
D. None of these.

$$\$5,600 + \$7,250 + \$600 - \$4,100 - \$1,150 - \$300 - \$900 = \$7,000$$

AACSB: Analytic
AICPA BB: Critical Thinking
AICPA FN: Measurement
Blooms: Analyze
Difficulty: 2 Medium
Learning Objective: 02-06 Explain the accounting cycle including adjustments and the closing process
Topic: Adjusting Entries

34. Olaf Company began 2013 with \$600 in its supplies account. During the year, the company purchased \$1,700 of supplies on account. The company paid \$1,500 on accounts payable by year end. On December 31, 2013, Olaf counted \$700 of supplies on hand. Olaf's financial statements for 2013 would show:

- A. \$800 of supplies; \$100 of supplies expense
B. \$700 of supplies; \$1,600 of supplies expense
C. \$700 of supplies; \$1,000 of supplies expense
D. \$800 of supplies; \$1,700 of supplies expense

\$700 of supplies on hand is the supplies asset on the balance sheet; \$600 beginning balance + \$1,700 of supplies purchased - \$700 ending balance = \$1,600 supplies expense

AACSB: Analytic
AICPA BB: Critical Thinking
AICPA FN: Measurement
Accessibility: Keyboard Navigation
Blooms: Analyze
Difficulty: 2 Medium
Learning Objective: 02-03 Show how supplies affect financial statements
Topic: Accounting for supplies

35. James Company paid \$1,800 for one year's rent in advance beginning on October 1, 2013. James's 2013 income statement would report rent expense, and its statement of cash flows would report cash outflow for rent, respectively, of

A. \$1,800; \$1,800
B. \$450; \$1,800
C. \$450; \$450
D. \$300; \$1,800

$\$1,800 \times 3/12 = \450 rent expense; \$1,800 payment on 10/1/13 is a cash outflow for rent

AACSB: Analytic
AICPA BB: Critical Thinking
AICPA FN: Measurement
AICPA FN: Reporting
Accessibility: Keyboard Navigation
Blooms: Analyze
Difficulty: 2 Medium
Learning Objective: 02-04 Show how prepaid items affect financial statements.
Topic: Prepaid items

36. In uncertain circumstances, the conservatism principle guides accountants to

A. accelerate revenue recognition and delay expense recognition.
B. accelerate expense recognition and delay revenue recognition.
C. recognize expense of prepaid items when payment is made.
D. maximize reported net income.

The conservatism principle guides accountants to choose the alternative that produces the lowest net income, which causes them to accelerate expense recognition and delay revenue recognition.

AACSB: Analytic
AICPA BB: Critical Thinking
AICPA FN: Decision Making
Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: 2 Medium
Learning Objective: 02-06 Explain the accounting cycle including adjustments and the closing process
Topic: The Conservatism Principle

37. Purchasing prepaid rent is classified as a(n):

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

Purchasing prepaid rent increases one asset (prepaid rent) and decreases another asset (cash). Therefore, it is classified as an asset exchange transaction.

AACSB: Reflective Thinking
AICPA BB: Critical Thinking
AICPA FN: Measurement
Accessibility: Keyboard Navigation
Blooms: Analyze
Difficulty: 1 Easy
Learning Objective: 02-08 Classify accounting events into asset source; asset use; asset exchange; and claims exchange transactions.
Topic: Asset Source Transactions

38. Revenue on account amounted to \$3,000. Cash collections of accounts receivable amounted to \$2,700. Cash paid for expenses was \$2,500. The amount of employee salaries accrued at the end of the year was \$300. Cash flow from operating activities was

- A. \$200.**
- B. \$300.
- C. \$500.
- D. None of these.

\$2,700 collected from customers - \$2,500 paid for expenses = \$200. Revenue earned on account and accrued salaries are not cash flow activities.

AACSB: Analytic
AICPA BB: Critical Thinking
AICPA FN: Measurement
Accessibility: Keyboard Navigation
Blooms: Analyze
Difficulty: 2 Medium
Learning Objective: 02-02 Show how payables affect financial statements
Topic: Accounting for salary expense

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

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

Interest revenue is an income statement account. Unearned revenue, despite having the word "revenue" in its title, is a liability account that appears on the balance sheet.

AACSB: Analytic
AICPA BB: Critical Thinking
AICPA FN: Reporting
Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: 1 Easy
Learning Objective: 02-07 Prepare financial statements based on accrual accounting
Topic: The Balance Sheet

40. Woodward Enterprises had the following events during 2013:

The business issued \$20,000 of common stock to its stockholders.
The business purchased land for \$12,000 cash.
Services were provided to customers for \$16,000 cash.
Services were provided to customers for \$5,000 on account.
The company borrowed \$16,000 from the bank.
Operating expenses of \$12,000 were incurred and paid in cash.
Salary expense of \$800 was accrued.
A dividend of \$4,000 was paid to the owners of Woodward Enterprises.

Assuming the company began operations during 2013, the amount of retained earnings as of December 31, 2013 would be:

- A. \$4,200**
- B. \$5,000
- C. \$8,200
- D. \$21,000

$\$0 \text{ beginning balance} + \$21,000 \text{ revenue} - \$12,800 \text{ expenses} - \$4,000 \text{ dividends} = \$4,200 \text{ ending balance}$

AACSB: Analytic
AICPA BB: Critical Thinking
AICPA FN: Measurement
Accessibility: Keyboard Navigation
Blooms: Analyze
Difficulty: 2 Medium
Learning Objective: 02-07 Prepare financial statements based on accrual accounting
Topic: The Balance Sheet

41. 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.** Purchased supplies for cash.
- B. Purchased land for cash.
- C. Invested cash in an interest earning account.
- D. All of these are correct.

Purchasing supplies for cash is a cash outflow for operating activities, but will not be reported as an expense until the supplies are used. Purchasing land is a cash flow for investing activities and does not affect net income. Investing cash in an interest earning account is a cash flow for investing activities and the investment itself does not affect net income.

AACSB: Analytic
AICPA BB: Critical Thinking
AICPA FN: Measurement
AICPA FN: Reporting
Accessibility: Keyboard Navigation
Blooms: Analyze
Difficulty: 2 Medium
Learning Objective: 02-03 Show how supplies affect financial statements
Topic: Accounting for supplies

42. Ruiz Company provided services for \$15,000 cash during the 2013 accounting period. Ruiz incurred \$12,000 expenses on account during 2013, and by the end of the year, \$3,000 of that amount had been paid with cash. Assuming that these are the only accounting events that affected Ruiz during 2013.

- A.** The amount of net income shown on the income statement is \$3,000.
- B. The amount of net income shown on the income statement is \$9,000.
- C. The amount of net loss shown on the income statement is \$3,000.
- D. The amount of net cash flow from operating activities shown on the statement of cash flows is \$6,000.

$\$15,000 \text{ revenue} - \$12,000 \text{ expenses} = \$3,000 \text{ net income}$

AACSB: Analytic
AICPA BB: Critical Thinking
AICPA FN: Measurement
AICPA FN: Reporting
Accessibility: Keyboard Navigation
Blooms: Analyze
Difficulty: 1 Easy
Learning Objective: 02-02 Show how payables affect financial statements
Topic: Accounting for accounts payable

43. The following accounts and balances were drawn from the records of Hoover Company on December 31, 2013:

Cash	\$1,000	Accounts Receivable	\$850
Dividends	500	Common Stock	975
Land	800	Revenue	800
Accounts Payable	450	Expense	550

Total assets on the December 31, 2013 balance sheet would amount to:

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

$\$1,000 \text{ cash} + \$800 \text{ land} + \$850 \text{ accounts receivable} = \$2,650 \text{ total assets}$

AACSB: Analytic
AICPA BB: Critical Thinking
AICPA FN: Measurement
AICPA FN: Reporting
Blooms: Apply
Difficulty: 2 Medium
Learning Objective: 02-07 Prepare financial statements based on accrual accounting
Topic: The Balance Sheet

44. The following accounts and balances were drawn from the records of Hoover Company on December 31, 2013:

Cash	\$1,000	Accounts Receivable	\$850
Dividends	500	Common Stock	975
Land	800	Revenue	800
Accounts Payable	450	Expense	550

The amount of net income shown on the December 31, 2013 income statement would amount to:

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

$\$800 \text{ revenue} - \$550 \text{ expenses} = \$250$

AACSB: Analytic
AICPA BB: Critical Thinking
AICPA FN: Measurement
AICPA FN: Reporting
Blooms: Apply
Difficulty: 1 Easy
Learning Objective: 02-07 Prepare financial statements based on accrual accounting
Topic: The Income Statement

45. The following accounts and balances were drawn from the records of Hoover Company on December 31, 2013:

Cash	\$1,000	Accounts Receivable	\$850
Dividends	500	Common Stock	975
Land	800	Revenue	800
Accounts Payable	450	Expense	550

The amount of retained earnings as of January 1, 2014 was:

- A. \$1,475.
- B. \$1,800.
- C. \$975.**
- D. \$1,225.

Assets (\$1,000 + \$850 + \$800) = Liabilities (\$450) + Common Stock (\$975) + Pre-closing Retained Earnings

Pre-closing Retained Earnings = \$2,650 - \$1,425 = \$1,225

\$1,225 + \$250 Net Income - \$500 Dividends = \$975 Retained Earnings on 1/1/14

AACSB: Analytic
AICPA BB: Critical Thinking
AICPA FN: Measurement
AICPA FN: Reporting
Blooms: Analyze
Difficulty: 3 Hard

Learning Objective: 02-07 Prepare financial statements based on accrual accounting
Topic: The Statement of Changes in Equity

46. Norris Company experienced the following transactions during 2013, its first year in operation.

1. Issued \$6,000 of common stock to stockholders.
2. Provided \$2,300 of services on account.
3. Paid \$1,600 cash for operating expenses.
4. Collected \$1,900 of cash from accounts receivable.
5. Paid a \$100 cash dividend to stockholders.

The amount of net income recognized on Norris Company's 2013 income statement is:

- A. \$500.
- B. \$400.
- C. \$700.**
- D. \$600.

\$2,300 revenue - \$1,600 expenses = \$700 net income

AACSB: Analytic
AICPA BB: Critical Thinking
AICPA FN: Measurement
AICPA FN: Reporting
Accessibility: Keyboard Navigation

47. Norris Company experienced the following transactions during 2013, its first year in operation.

1. Issued \$6,000 of common stock to stockholders.
2. Provided \$2,300 of services on account.
3. Paid \$1,600 cash for operating expenses.
4. Collected \$1,900 of cash from accounts receivable.
5. Paid a \$100 cash dividend to stockholders.

The amount of net cash flow from operating activities shown on Norris Company's 2013 statement of cash flows is

- A. \$200.
- B. \$300.**
- C. \$700.
- D. \$600.

\$1,900 cash collected from revenue - \$1,600 cash paid for expenses = \$300 cash flow from operating activities

48. Norris Company experienced the following transactions during 2013, its first year in operation.

1. Issued \$6,000 of common stock to stockholders.
2. Provided \$2,300 of services on account.
3. Paid \$1,600 cash for operating expenses.
4. Collected \$1,900 of cash from accounts receivable.
5. Paid a \$100 cash dividend to stockholders.

The total amount of assets shown on Norris Company's December 31, 2013 balance sheet is:

- A. \$6,200.
- B. \$6,600.**
- C. \$6,700.
- D. None of these.

Cash (\$6,000 + \$1,900 - \$1,600 - \$100) + Accounts Receivable (\$2,300 - \$1,900) = \$6,600
Total Assets

AICPA BB: Critical Thinking
AICPA FN: Measurement
AICPA FN: Reporting
Accessibility: Keyboard Navigation
Blooms: Apply
Difficulty: 2 Medium
Learning Objective: 02-07 Prepare financial statements based on accrual accounting
Topic: The Balance Sheet

49. Norris Company experienced the following transactions during 2013, its first year in operation.

1. Issued \$6,000 of common stock to stockholders.
2. Provided \$2,300 of services on account.
3. Paid \$1,600 cash for operating expenses.
4. Collected \$1,900 of cash from accounts receivable.
5. Paid a \$100 cash dividend to stockholders.

The amount of retained earnings appearing on Norris Company's December 31, 2013 balance sheet is:

- A. \$500.
- B. \$600.**
- C. \$700.
- D. \$6,600.

$\$6,600 \text{ Assets} - \$6,000 \text{ Common Stock} = \$600 \text{ Retained Earnings}$

AACSB: Analytic
AICPA BB: Critical Thinking
AICPA FN: Measurement
AICPA FN: Reporting
Accessibility: Keyboard Navigation
Blooms: Apply
Difficulty: 2 Medium
Learning Objective: 02-07 Prepare financial statements based on accrual accounting
Topic: The Balance Sheet

50. On December 31, 2013, Farrell Co. owed \$1,500 in salaries to employees who had worked during December but would be paid in January. If the year-end adjustment is properly recorded on December 31, 2013, what will be the effect of the accrual on the following items for Farrell?

	Net Income	Cash Flow from Operating Activities
a.	No effect	No effect
b.	Decrease	No effect
c.	Increase	Decrease
d.	No effect	Decrease

- A. Option A
B. Option B
 C. Option C
 D. Option D

Recording the adjusting entry will increase salaries expense, which will reduce net income and it will increase salaries payable, a liability. It will not affect cash flows.

AACSB: Analytic
 AICPA BB: Critical Thinking
 AICPA FN: Measurement
 Blooms: Understand
 Difficulty: 2 Medium
 Learning Objective: 02-02 Show how payables affect financial statements
 Learning Objective: 02-06 Explain the accounting cycle including adjustments and the closing process
 Topic: Accounting for salary expense
 Topic: The Closing Process

51. Tocca Co. collected a \$5,000 cash advance from a customer on November 1, 2013 for work to be performed over a six-month period beginning on that date. If the year-end adjustment is properly recorded, what will be the effect on Tocca's 2013 financial statements?

- A. Increase assets and increase liabilities
 B. Increase assets and increase revenues
C. Decrease liabilities and increase revenues
 D. No effect

The adjusting entry to recognize revenue earned on the contract will increase revenues and decrease liabilities (unearned revenue).

AACSB: Analytic
 AICPA BB: Critical Thinking
 AICPA FN: Measurement
 AICPA FN: Reporting
 Accessibility: Keyboard Navigation
 Blooms: Understand
 Difficulty: 2 Medium
 Learning Objective: 02-05 Show how unearned revenues affect financial statements
 Learning Objective: 02-06 Explain the accounting cycle including adjustments and the closing process
 Topic: Accounting for unearned revenues

52. Gonzales Company collected \$18,000 on September 1, 2013 from a customer for services to be provided over a one-year period beginning on that date. How much revenue would Gonzales Company report related to this contract on its income statement for the year ended December 31, 2013? How much would it report as cash flows from operating activities for 2013?

A. \$6,000; \$6,000
B. \$6,000; \$18,000
C. \$18,000; \$18,000
D. \$0; \$18,000

Gonzales will recognize revenue earned for the 4 months between September 1 and December 31 ($\$18,000 \times 4/12 = \$6,000$). However, the company will recognize the entire \$18,000 received as a cash inflow for operating activities in 2013.

AACSB: Analytic
AICPA BB: Critical Thinking
AICPA FN: Measurement
AICPA FN: Reporting
Accessibility: Keyboard Navigation
Blooms: Analyze
Difficulty: 2 Medium
Learning Objective: 02-05 Show how unearned revenues affect financial statements
Learning Objective: 02-06 Explain the accounting cycle including adjustments and the closing process
Topic: Accounting for unearned revenues
Topic: The Closing Process

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

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

The matching concept refers to the matching of expenses to the revenues that those expenses produce.

AACSB: Analytic
AICPA BB: Critical Thinking
AICPA FN: Measurement
Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: 1 Easy
Learning Objective: 02-06 Explain the accounting cycle including adjustments and the closing process
Topic: The Matching Concept

54. The results of the matching process are best reported on which financial statement?

- A. Balance sheet
- B. Income statement**
- C. Statement of changes in stockholders' equity
- D. Statement of cash flows

The matching process matches expenses to the revenues that they produce. Revenues and expenses are reported on the income statement.

AACSB: Analytic
AICPA BB: Critical Thinking
AICPA FN: Reporting
Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: 2 Medium
Learning Objective: 02-06 Explain the accounting cycle including adjustments and the closing process
Topic: The Matching Concept

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

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

When the connection between an expense and the corresponding revenue is vague, accountants commonly match the expense with the period in which it is incurred. Those expenses are called period costs.

AACSB: Analytic
AICPA BB: Critical Thinking
AICPA FN: Measurement
Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: 1 Easy
Learning Objective: 02-06 Explain the accounting cycle including adjustments and the closing process
Topic: The Matching Concept

56. If retained earnings decreased during the year, and no dividends were paid, which of the following must be true?

- A. Expenses for the year exceeded revenues**
- B. The company did not have enough cash to pay its expenses
- C. Total equity decreased
- D. Liabilities increased during the year

If retained earnings decreased and no dividends were paid, the company must have reported a net loss. A net loss would have been the result if expenses for the year exceeded revenues.

AACSB: Analytic

AICPA BB: Critical Thinking
AICPA FN: Measurement
Accessibility: Keyboard Navigation
Blooms: Analyze
Difficulty: 2 Medium
Learning Objective: 02-06 Explain the accounting cycle including adjustments and the closing process
Topic: The Closing Process

57. Which of the following correctly states the proper order of the accounting cycle?

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

In the accounting cycle, a company records transactions throughout the accounting period, then adjusted accounts at the end of the period. Next, the company prepares financial statements, and finally, it closes temporary accounts in order to begin the next accounting period.

AACSB: Analytic
AICPA BB: Critical Thinking
AICPA FN: Measurement
Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: 2 Medium
Learning Objective: 02-06 Explain the accounting cycle including adjustments and the closing process
Topic: The accounting cycle

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

- A. Report revenue when received.
- B.** Match revenues and expenses in the proper period.
- C. Report expenses when cash disbursements are made.
- D. Improve the company's earnings per share.

The accrual basis of accounting allows a company to recognize expenses in the same accounting period as the revenues those expenses produce.

AACSB: Analytic
AICPA BB: Critical Thinking
AICPA FN: Measurement
Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: 2 Medium
Learning Objective: 02-06 Explain the accounting cycle including adjustments and the closing process
Topic: The Closing Process

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

- A. Liabilities
- B. Common stock
- C. Assets
- D.** Revenues

Revenues, expenses and dividends are closed to retained earnings at the end of an accounting cycle.

AACSB: Analytic
AICPA BB: Critical Thinking
AICPA FN: Measurement
Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: 1 Easy
Learning Objective: 02-06 Explain the accounting cycle including adjustments and the closing process
Topic: The Closing Process

60. Which of the following accounts is **not** closed at the end of an accounting cycle?

- A. Liabilities
- B.** Revenues
- C. Dividends
- D. Expenses

Revenues, expenses and dividends are closed to retained earnings at the end of an accounting cycle. Liabilities is a permanent account that is reported on the balance sheet.

AACSB: Analytic
AICPA BB: Critical Thinking
AICPA FN: Measurement
Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: 2 Medium
Learning Objective: 02-06 Explain the accounting cycle including adjustments and the closing process
Topic: The Closing Process

61. The balance in a revenue account at the beginning of an accounting period will always be

- A. equal to the amount of retained earnings for the previous period.
- B. last period's ending balance.
- C. higher than the previous periods beginning balance.
- D.** zero.

The closing process at the end of an accounting period closes all temporary accounts, including revenue, to zero to start off the next accounting period.

AACSB: Analytic
AICPA BB: Critical Thinking

AICPA FN: Measurement
 Accessibility: Keyboard Navigation
 Blooms: Understand
 Difficulty: 2 Medium
 Learning Objective: 02-06 Explain the accounting cycle including adjustments and the closing process
 Topic: The Closing Process

62. The accounting principle that guides accountants, when faced with a recognition dilemma, to choose the alternative that produces the lowest net income is referred to as

A. the matching principle.
 B. internal control.
C. conservatism.
 D. materiality.

Conservatism guides companies to choose accounting methods that avoid overstating revenues and understating expenses.

AACSB: Analytic
 AICPA BB: Critical Thinking
 AICPA FN: Measurement
 Accessibility: Keyboard Navigation
 Blooms: Understand
 Difficulty: 2 Medium
 Learning Objective: 02-06 Explain the accounting cycle including adjustments and the closing process
 Topic: Accrual Accounting

63. Which of the following describes the effects of a claims exchange transaction on a company's financial statements?

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

- A.

NA	=	NA	+	NA	NA	-	NA	=	NA	+ OA
----	---	----	---	----	----	---	----	---	----	------
- B.

+	=	+	+	NA	NA	-	NA	=	NA	+ OA
---	---	---	---	----	----	---	----	---	----	------
- C.**

NA	=	+	+	-	NA	-	+	=	-	NA
----	---	---	---	---	----	---	---	---	---	----
- D.

All of these could represent the effects of a claims exchange transaction.										
--	--	--	--	--	--	--	--	--	--	--

A claims exchange transaction will result in either an increase in liabilities and a decrease in equity or a decrease in liabilities and an increase in equity. It may or may not affect the income statement, but it will never affect the statement of cash flows, as it does not affect any asset, including cash.

AACSB: Analytic
 AICPA BB: Critical Thinking
 AICPA FN: Measurement
 Blooms: Analyze
 Difficulty: 2 Medium

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

- A.** Issued common stock.
- B. Paid a cash dividend to stockholders.
- C. Received a payment on accounts receivable.
- D. Accrued salary expense.

Issuing common stock is an asset source transaction that increases assets (cash) and increases equity (common stock). Paying a cash dividend is an asset use transaction, receiving a payment on accounts receivable is an asset exchange transaction, and accruing salary expense is a claims exchange transaction.

AACSB: Analytic
AICPA BB: Critical Thinking
AICPA FN: Measurement
Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: 2 Medium
Learning Objective: 02-08 Classify accounting events into asset source; asset use; asset exchange; and claims exchange transactions.
Topic: Asset Source Transactions

65. Which of the following is an asset use transaction?

- A. Purchased machine for cash.
- B.** Recorded supplies expense at the end of the period.
- C. Invested cash in an interest earning account.
- D. Accrued salary expense.

Recording supplies expense at the end of the period is an asset use transaction that decreases assets (supplies) and decreases equity (supplies expense decreases retained earnings). Purchasing a machine for cash and investing cash in an interest earning account are asset exchange transactions. Accruing salary expense is a claims exchange transaction.

AACSB: Analytic
AICPA BB: Critical Thinking
AICPA FN: Measurement
Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: 2 Medium
Learning Objective: 02-08 Classify accounting events into asset source; asset use; asset exchange; and claims exchange transactions.
Topic: Asset Use Transactions

66. Which of the following is a claims exchange transaction?

- A. Purchased machine for cash.
- B. Issued common stock.
- C. Invested cash in an interest earning account.
- D. Recognized revenue earned on a contract where the cash had been collected at an earlier date.**

Recognizing revenue earned on a contract where the cash had been collected at an earlier date is a claims exchange transaction that decreases liabilities (unearned revenue) and increases equity (revenue increases retained earnings). Purchasing a machine for cash and investing in an interest earning account are asset exchange transactions. Issuing common stock is an asset source transaction.

AACSB: Analytic
AICPA BB: Critical Thinking
AICPA FN: Measurement
Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: 2 Medium

Learning Objective: 02-08 Classify accounting events into asset source; asset use; asset exchange; and claims exchange transactions.
Topic: Claims Exchange Transactions

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

- A. Issued common stock.
- B. Accrued salary expense at the end of the accounting period.
- C. Recognized revenue earned on a contract where the cash had been collected at an earlier date.
- D. Collected cash on accounts receivable**

Collecting cash on accounts receivable is an asset exchange transaction that increases one asset (cash) and decreases another asset (accounts receivable). Issuing common stock is an asset source transaction. Accruing salary expense and recognizing revenue earned on a contract where the cash had been collected at an earlier date are both claims exchange transactions.

AACSB: Analytic
AICPA BB: Critical Thinking
AICPA FN: Measurement
Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: 2 Medium

Learning Objective: 02-08 Classify accounting events into asset source; asset use; asset exchange; and claims exchange transactions.
Topic: Asset Exchange Transactions

68. Earning revenue on account would be classified as a/an:

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

This transaction increases assets (accounts receivable) and increases equity (revenue increases retained earnings), and is therefore classified as an asset source transaction.

AACSB: Analytic
AICPA BB: Critical Thinking
AICPA FN: Measurement
Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: 2 Medium
Learning Objective: 02-08 Classify accounting events into asset source; asset use; asset exchange; and claims exchange transactions.
Topic: Asset Source Transactions

Essay Questions

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

- _____ a) The recognition of accounting events and the realization of cash consequences may occur in different accounting periods.
- _____ b) The cash consequence of a transaction always precedes its accounting recognition.
- _____ c) Expenses may either be matched to revenues they produce or to periods in which they are incurred.
- _____ d) Kenyon may record accrual transactions, but may not record deferral transactions.
- _____ e) Kenyon is not permitted to make cash sales.

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

Feedback: a) This is true. Recognizing accounting events (reporting them on the financial statements) and realizing cash consequences may occur in different accounting periods.
b) This is false. Sometimes the cash consequence of a transaction occurs after its accounting recognition. An example is prepaid rent.
c) This is true. The matching concept allows companies that use accrual accounting to match expenses with either revenues or accounting periods.
d) This is false. A company that uses accrual accounting records both accrual and deferral transactions.
e) This is false. Accrual basis companies may make cash sales and may pay cash expenses.

AACSB: Analytic
AACSB: Reflective Thinking
AICPA BB: Critical Thinking

Learning Objective: 02-06 Explain the accounting cycle including adjustments and the closing process

70. Whetstone Co. performed services for a customer on account. Indicate whether each of the following statements about this transaction is true or false.

- _____ a) Assets and equity both increase when the revenue is recognized.
_____ b) This transaction did not affect cash flows.
_____ c) The company recorded an increase in revenue and a decrease in accounts receivable.
_____ d) Recognition of revenue would be delayed until cash was received.
_____ e) This transaction is an example of an asset source transaction.

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

Feedback: a) This is true. Assets (accounts receivable) and equity (revenue increases retained earnings) both increase.

b) This is true. Because cash is not affected, cash flows are not affected.

c) This is false. The event resulted in an increase in revenue and an increase in accounts receivable.

d) This is false. Kenyon would recognize revenue when the services are performed, not when cash is received.

e) This is true. Because assets (accounts receivable) increase, it is an asset source transaction.

Learning Objective: 02-01 Show how receivables affect financial statements

Learning Objective: 02-08 Classify accounting events into asset source; asset use; asset exchange; and claims exchange transactions.

Topic: Accounting for accounts receivable
Topic: Asset Source Transactions

71. Dandridge Company collected cash in 2012 from a customer for services to be performed beginning January 2013. Indicate whether each of the following statements about this transaction is true or false.

- _____ a) Dandridge's 2012 income statement would not be affected by this transaction.
_____ b) Dandridge's 2012 statement of cash flows would be affected by this transaction.
_____ c) This transaction is an asset exchange transaction.
_____ d) The revenue for the services provided will be recorded in 2013.
_____ e) This transaction is considered an accrual transaction.

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

Feedback: a) This is true. Because work will not begin until 2013, no revenue is recognized in 2012.

b) This is true. Only the 2012 statement of cash flows is affected because no cash is received in 2013.

c) This is false. Collecting a cash advance is an asset source transaction that increases assets (cash) and increases liabilities (unearned revenue).

d) This is true. Revenue will be recognized only when services are performed, beginning in 2013.

e) This is false. This transaction is considered a deferral transaction because cash is exchanged before revenue or expense is recognized.

AACSB: Analytic
AACSB: Reflective Thinking
AICPA BB: Critical Thinking
AICPA FN: Measurement
AICPA FN: Reporting
Blooms: Understand
Difficulty: 2 Medium

Learning Objective: 02-05 Show how unearned revenues affect financial statements
Learning Objective: 02-08 Classify accounting events into asset source; asset use; asset exchange; and claims exchange transactions.

Topic: Accounting for unearned revenues
Topic: Asset Source Transactions

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

- _____ a) Recording an increase in a revenue account may be associated with an increase in assets.
_____ b) Recording an increase in a revenue account may be associated with a decrease in liabilities.
_____ c) An increase in Salaries Expense may be accompanied by a decrease in Salaries Payable.
_____ d) Recording a decrease in assets may be associated with an increase in an expense account.
_____ e) An increase in Supplies may be accompanied by an increase in Supplies Expense.

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

Feedback: a) This is true. An increase in a revenue account is usually associated with an increase in assets, such as cash or accounts receivable.

b) This is true. Recording an increase in revenue may be associated with a decrease in liabilities, as in the case of earning revenue from a prepaid contract (unearned revenue).

c) This is false. An increase in salaries expense could be accompanied by an increase in salaries payable, as in the case of accruing salaries expense, but not a decrease.

d) This is true. Recording a decrease in assets (such as prepaid rent or insurance, or supplies) may be associated with an increase in expenses.

e: This is false. Supplies expense is increased when supplies are used, or decreased.

AACSB: Analytic
AACSB: Reflective Thinking
AICPA BB: Critical Thinking
AICPA FN: Measurement
Blooms: Understand
Difficulty: 2 Medium

Learning Objective: 02-01 Show how receivables affect financial statements

Learning Objective: 02-02 Show how payables affect financial statements

Learning Objective: 02-05 Show how unearned revenues affect financial statements

Topic: Accounting for payables

Topic: Accounting for receivables

Topic: Accounting for unearned revenues

73. Wyatt Company paid \$57,000 in January 2013 for salaries that had been earned by employees in December 2012. Indicate whether each of the following statements about financial statement effects of the January 2013 event is true or false.

- _____ a) The income statement for 2013 is not affected because the salaries expense had been recognized at the end of December.
_____ b) On the 2013 statement of cash flows, cash flows from operating activities decreased.
_____ c) Payment of the salaries in 2013 decreased a liability.
_____ d) The 2013 statement of changes in stockholders' equity would not be affected because the salaries expense had been recognized at the end of December.
_____ e) Both assets and equity decreased as a result of this transaction.

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

Feedback: a) This is true. The expense is recognized in the period in which the salaries were earned, 2012.

b) This is true. The January, 2013 payment decreases cash flows from operating activities in 2013.

c) This is true. When the payment is made, salaries payable, a liability, is decreased.

d) This is true. Because the expense was recognized in 2012, the 2013 statement of changes in equity is unaffected.

e) This is false. The January, 2013 payment decreases assets (cash) and liabilities (salaries payable), but not equity.

AACSB: Analytic
AICPA BB: Critical Thinking
AICPA FN: Measurement
AICPA FN: Reporting
Blooms: Understand
Difficulty: 2 Medium

Learning Objective: 02-02 Show how payables affect financial statements
Topic: Accounting for salary expense

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

- _____ a) The closing process transfers certain account balances to retained earnings at the end of the accounting cycle.
- _____ b) Only accounts that appear on the income statement are closed at the end of each accounting cycle.
- _____ c) Another name for permanent accounts is "nominal accounts."
- _____ d) The permanent accounts contain information that is cumulative in nature.
- _____ e) The retained earnings balance at the end of any given year is equal to that year's net income.

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

Feedback: a) This is true. The closing process transfers the balances in revenue, expense, and dividend accounts to retained earnings at the end of the period.

b) This is false. Dividends are closed, but do not appear on the income statement.

c) This is false. Temporary accounts are also called nominal accounts.

d) This is true. All balance sheet, or permanent, accounts contain cumulative information.

e) This is false. Because the retained earnings account accumulates earnings from year to year, its balance is not equal to net income in any particular year.

AACSB: Analytic
AACSB: Reflective Thinking
AICPA BB: Critical Thinking
AICPA FN: Measurement
Blooms: Understand
Difficulty: 2 Medium
Learning Objective: 02-06 Explain the accounting cycle including adjustments and the closing process
Topic: The Closing Process

75. Regarding the effects of end-of-period adjustments, state whether each of the following statements is true or false.

- _____ a) Recording the usage of supplies involves a decrease in assets and a decrease in equity.
_____ b) The accrual of salaries is considered a claims exchange transaction.
_____ c) Recording services performed on a prepaid contract involves a decrease in liabilities and an increase in assets.
_____ d) End of period adjustments never affect cash flows.
_____ e) Failure to record accrued salaries at the end of the year will cause reported income to be higher than it should have been.

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

Feedback: a) This is true. Recording usage of supplies decreases assets (supplies) and increases expense, which decreases equity.

b) This is true. Accruing salaries increases a liability (salaries payable) and decreases equity (salaries expense decreases retained earnings).

c) This is false. Recording service performed on a prepaid contract involves a decrease in liabilities (unearned revenue) and an increase in revenue, which increases equity. Assets are not affected.

d) This is true. End of period adjustments never affect the cash account, therefore never affect cash flows.

e) This is true. Failure to record accrued salaries would understate salaries expense, causing reported income to be higher than it should have been.

AACSB: Analytic
AACSB: Reflective Thinking
AICPA BB: Critical Thinking
AICPA FN: Measurement
Blooms: Analyze
Difficulty: 2 Medium

Learning Objective: 02-06 Explain the accounting cycle including adjustments and the closing process
Learning Objective: 02-08 Classify accounting events into asset source; asset use; asset exchange; and claims exchange transactions.
Topic: Adjusting Entries

76. Indicate whether each of the following statements regarding the four types of accounting events is true or false.

_____ a) Asset use transactions involve an increase in one asset and a decrease in another asset.
_____ b) An asset source transaction involves an increase in assets and an increase in a corresponding claims account.
_____ c) An asset exchange transaction involves an increase in an asset and a decrease in a claims account.
_____ d) Asset exchange transactions involve an increase in one asset and a decrease in another asset.
_____ e) Some claims exchange transactions involve an increase in a liability account and a decrease in an equity account.

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

Feedback: a) This is false. An asset use transaction does not involve an increase in an asset.
b) This is true. An asset source transaction involves an increase in assets and an increase in liabilities or equity.
c) This is false. An asset exchange transaction involves an increase in one asset and a decrease in another.
d) This is true. An asset exchange transaction involves an increase in one asset and a decrease in another.
e) This is true. Some claims exchange transactions, including accruing salaries, involve an increase in a liability and a decrease in equity.

AACSB: Analytic
AACSB: Reflective Thinking
AICPA BB: Critical Thinking
AICPA FN: Measurement
Blooms: Understand
Difficulty: 1 Easy

Learning Objective: 02-08 Classify accounting events into asset source; asset use; asset exchange; and claims exchange transactions.

Topic: Claims Exchange Transactions

True / False Questions

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

TRUE

Recognition means recording revenue or expense, which results in reporting the event in the financial statements.

AACSB: Reflective Thinking
AICPA BB: Critical Thinking
AICPA FN: Measurement
Accessibility: Keyboard Navigation
Blooms: Remember

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

FALSE

Accrual basis companies recognize revenue when earned and expense when incurred, regardless of when cash is received or paid.

AACSB: Reflective Thinking
AICPA BB: Critical Thinking
AICPA FN: Measurement
Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: 1 Easy
Learning Objective: 02-01 Show how receivables affect financial statements
Learning Objective: 02-02 Show how payables affect financial statements
Topic: Expense Recognition
Topic: Revenue recognition

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

FALSE

This describes a deferral event, not an accrual event.

AACSB: Reflective Thinking
AICPA BB: Critical Thinking
AICPA FN: Measurement
Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: 1 Easy
Learning Objective: 02-01 Show how receivables affect financial statements
Topic: Accrual Accounting

80. A company may recognize a revenue or expense without a corresponding cash collection or payment in the same accounting period.

TRUE

Accrual basis companies recognize revenue when earned and expense when incurred, regardless of when cash is received or paid.

AACSB: Analytic
AICPA BB: Critical Thinking
AICPA FN: Measurement
Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: 1 Easy
Learning Objective: 02-01 Show how receivables affect financial statements
Topic: Accrual Accounting

81. A payment to an employee in settlement of salaries payable decreases an asset and decreases a liability.

TRUE

The event decreases assets (cash) and decreases liabilities (salaries payable).

AACSB: Reflective Thinking
AICPA BB: Critical Thinking
AICPA FN: Measurement
Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: 1 Easy

Learning Objective: 02-02 Show how payables affect financial statements
Topic: Accounting for salary expense

82. An increase in an expense may be accompanied by an increase in a liability.

TRUE

An increase in an expense, such as salaries expense, may be accompanied by an increase in a liability, such as salaries payable.

AACSB: Reflective Thinking
AICPA BB: Critical Thinking
AICPA FN: Measurement
Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: 1 Easy

Learning Objective: 02-02 Show how payables affect financial statements
Topic: Accounting for payables

83. Revenues and liabilities are temporary accounts.

FALSE

Revenues and expenses, not liabilities, are temporary accounts.

AACSB: Reflective Thinking
AICPA BB: Critical Thinking
AICPA FN: Measurement
Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: 1 Easy

Learning Objective: 02-06 Explain the accounting cycle including adjustments and the closing process
Topic: The Closing Process

84. In the closing process, the amounts in temporary accounts are moved to retained earnings, a permanent account.

TRUE

All temporary account balances are moved to retained earnings in the closing process.

AACSB: Reflective Thinking

AICPA BB: Critical Thinking
AICPA FN: Measurement
Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: 1 Easy
Learning Objective: 02-06 Explain the accounting cycle including adjustments and the closing process
Topic: The Closing Process

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

FALSE

Revenues, not unearned revenues, are closed.

AACSB: Reflective Thinking
AICPA BB: Critical Thinking
AICPA FN: Measurement
Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: 2 Medium
Learning Objective: 02-06 Explain the accounting cycle including adjustments and the closing process
Topic: The Closing Process

86. After closing, only balance sheet accounts have non-zero balances.

TRUE

All temporary accounts have zero balances after closing.

AACSB: Analytic
AACSB: Reflective Thinking
AICPA BB: Critical Thinking
AICPA FN: Reporting
Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: 2 Medium
Learning Objective: 02-06 Explain the accounting cycle including adjustments and the closing process
Topic: The Closing Process

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

TRUE

The accounting cycle includes recording transactions, adjusting the accounts, preparing statements, and closing the accounts.

AACSB: Reflective Thinking
AICPA BB: Critical Thinking
AICPA FN: Measurement
Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: 1 Easy
Learning Objective: 02-06 Explain the accounting cycle including adjustments and the closing process
Topic: The accounting cycle

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

TRUE

Accrual-basis, not cash-basis, accounting matches expenses with revenues.

AACSB: Reflective Thinking
AICPA BB: Critical Thinking
AICPA FN: Measurement
Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: 1 Easy
Learning Objective: 02-06 Explain the accounting cycle including adjustments and the closing process
Topic: The Matching Concept

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

FALSE

This is a definition of conservatism, not the matching concept.

AACSB: Reflective Thinking
AICPA BB: Critical Thinking
AICPA FN: Measurement
Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: 2 Medium
Learning Objective: 02-06 Explain the accounting cycle including adjustments and the closing process
Topic: The Matching Concept

90. Adjusting entries never affect a business's cash account.

TRUE

Adjusting entries involve either revenue or expense and a non-cash balance sheet account.

AACSB: Analytic
AACSB: Reflective Thinking
AICPA BB: Critical Thinking
AICPA FN: Measurement
Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: 2 Medium
Learning Objective: 02-06 Explain the accounting cycle including adjustments and the closing process
Topic: Adjusting Entries

91. Asset use transactions always involve the payment of cash.

FALSE

Asset use transactions can involve a decrease in another asset account, such as supplies or prepaid rent.

AACSB: Analytic

AACSB: Reflective Thinking
AICPA BB: Critical Thinking
AICPA FN: Measurement
Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: 2 Medium
Learning Objective: 02-08 Classify accounting events into asset source; asset use; asset exchange; and claims exchange transactions.
Topic: Asset Use Transactions

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

TRUE

Providing services to customers on account increases the asset accounts receivable.

AACSB: Analytic
AICPA BB: Critical Thinking
AICPA FN: Measurement
Accessibility: Keyboard Navigation
Blooms: Apply
Difficulty: 1 Easy
Learning Objective: 02-08 Classify accounting events into asset source; asset use; asset exchange; and claims exchange transactions.
Topic: Asset Source Transactions

93. An adjusting entry that decreases unearned revenue and increases service revenue is a claims exchange transaction.

TRUE

Unearned revenue, a liability, decreases and service revenue increases the equity account retained earnings, making this a claims exchange transaction.

AACSB: Analytic
AICPA BB: Critical Thinking
AICPA FN: Measurement
Accessibility: Keyboard Navigation
Blooms: Apply
Difficulty: 2 Medium
Learning Objective: 02-08 Classify accounting events into asset source; asset use; asset exchange; and claims exchange transactions.
Topic: Claims Exchange Transactions

94. Sometimes the recognition of revenue is accompanied by an increase in liabilities.

FALSE

Recognition of revenue increases equity, which cannot be accompanied by an increase in liabilities. It could, however, be accompanied by a decrease in liabilities as in a claims exchange transaction.

AACSB: Analytic
AICPA BB: Critical Thinking
AICPA FN: Measurement
Accessibility: Keyboard Navigation
Blooms: Apply
Difficulty: 2 Medium

Learning Objective: 02-08 Classify accounting events into asset source; asset use; asset exchange; and claims exchange transactions.

Topic: Claims Exchange Transactions

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

FALSE

The collection of an account receivable is an asset exchange transaction.

AACSB: Analytic

AICPA BB: Critical Thinking

AICPA FN: Measurement

Accessibility: Keyboard Navigation

Blooms: Apply

Difficulty: 2 Medium

Learning Objective: 02-08 Classify accounting events into asset source; asset use; asset exchange; and claims exchange transactions.

Topic: Assets Exchange Transactions

Essay Questions

96. Houston Company began business operations and experienced the following transactions during 2013:

- 1) Issued common stock for \$20,000 cash.
- 2) Provided services to customers for \$50,000 on account.
- 3) Purchased \$1,000 of supplies on account.
- 4) Paid \$12,000 cash to rent office space for a 12-month period beginning July 1.
- 5) Collected \$46,000 cash from customers.
- 6) Paid cash for \$36,000 of operating expenses.
- 7) Adjusted the accounting records to reflect that there was \$300 of supplies remaining on hand at year-end.
- 8) Recorded an end-of-year adjustment to recognize rent expense.

Required:

- a) Record the above transactions on a horizontal statements model, reflecting their effect on the different financial statements.
- b) Prepare Houston Company's income statement, balance sheet and statement of cash flows for the year ended December 31, 2013.

	Assets				=	Liab	+	Stockholders' Equity		Rev.	-	Exp.	=	NI	CF	
	Cash	AR	Supp.	Ppd. Rent		AP		CS	+ RE							
1	20,000							20,000							20,000	FA
2		50,000							50,000	50,000				50,000		
3			1,000			1,000										
4	(12,000)			12,000											(12,000)	OA
5	46,000	(46,000)													46,000	OA
6	(36,000)							(36,000)			36,000		(36,000)		(36,000)	OA
7			(700)					(700)			700		(700)			
8				(6,000)				(6,000)			6,000		(6,000)			
Totals	\$18,000	\$4,000	\$300	\$6,000		\$1,000		\$20,000	\$7,300	\$50,000	\$42,700		\$7,300		\$18,000	

a)

Houston Company	
Income Statement	
For the Year Ended December 31, 2013	
Revenue	\$50,000
Operating expense	(36,000)
Rent expense	(6,000)
Supplies expense	(700)
Net Income	<u>\$7,300</u>

b)

Houston Company		
Balance Sheet		
As of December 31, 2013		
Assets		
Cash	\$ 18,000	
Accounts receivable	4,000	
Supplies	300	
Prepaid rent	<u>6,000</u>	<u>\$ 28,300</u>
Liabilities		
Accounts payable		\$ 1,000
Stockholders' equity		
Common stock	20,000	
Retained earnings	<u>7,300</u>	<u>27,300</u>
Total liabilities and stockholders' equity		<u>\$ 28,300</u>

Houston Company		
Statement of Cash Flows		
For the Year Ended December 31, 2013		
Cash flows from operating activities		
Cash receipts from revenue	\$ 46,000	
Cash payments for rent	(12,000)	
Cash payments for operating expenses	<u>(36,000)</u>	
Net cash flow from operating activities		\$ (2,000)
Cash flows for investing activities		\$ -
Cash flows from financing activities		<u>\$ 20,000</u>
Net increase in cash		18,000
Plus: Beginning cash balance		<u>-</u>
Ending cash balance		<u><u>\$ 18,000</u></u>

AACSB: Analytic

AICPA BB: Critical Thinking

AICPA FN: Reporting

Blooms: Apply

Difficulty: 3 Hard

Learning Objective: 02-07 Prepare financial statements based on accrual accounting

Topic: The Balance Sheet

Topic: The Income Statement

Topic: The Statement of Cash Flows

97. The following transactions apply to Brunswick Corporation.

- a) Issued common stock for \$35,000 cash.
- b) Provided services to customers for \$18,000 on account.
- c) Purchased land for \$18,000 cash.
- d) Purchased \$500 of supplies on account.
- e) Paid \$9,000 for operating expenses.
- f) Paid \$450 on accounts payable.
- g) Collected \$15,000 cash from customers.
- h) Accrued \$400 of salary expense at year end.
- i) Paid \$2,500 dividends to stockholders.

Required:

- a) Identify the effect on the statement of cash flows for each of the above transactions.
- b) Classify the above accounting events into one of four types of transactions (asset source, asset use, asset exchange, claims exchange).

	a)		b)
Event	Cash Flow		Transaction Type
a)	\$ 35,000	FA	Asset Source
b)	NA		Asset Source
c)	\$(18,000)	IA	Asset Exchange
d)	NA		Asset Source
e)	\$ (9,000)	OA	Asset Use
f)	\$ (450)	OA	Asset Use
g)	\$ 15,000	OA	Asset Source
h)	NA		Claims Exchange
i)	\$ (2,500)	FA	Asset Use

AACSB: Analytic
AICPA BB: Critical Thinking
AICPA FN: Reporting
Blooms: Apply
Difficulty: 2 Medium

Learning Objective: 02-01 Show how receivables affect financial statements

Learning Objective: 02-02 Show how payables affect financial statements

Learning Objective: 02-03 Show how supplies affect financial statements

Learning Objective: 02-08 Classify accounting events into asset source; asset use; asset exchange; and claims exchange transactions.

Topic: Accounting for accounts receivable

Topic: Accounting for salary expense

Topic: Accounting for supplies

Topic: Asset Source Transactions

Topic: Asset Use Transactions

Topic: Claims Exchange Transactions

98. Record each of the following events in the horizontal statements model. After each event, record the corresponding **end-of-year adjustment** that would be necessary.

- a) Paid \$18,000 for a 1-year lease beginning April 1.
- b) Paid \$1,500 to purchase supplies. At year end, \$540 of supplies remained.
- c) Received a \$24,000 cash advance for a 6-month contract beginning on Sept. 1.

Event	Assets			=	Liab.	+	Equity		Rev.	-	Exp.	=	NI		CF
	Cash	Supplies	Prep. Rent		Unearned Rev.		Ret. Eam.								
a)	(18,000)		18,000											(18,000)	O A
			(13,500)				(13,500)			13,500			(13,500)		
b)	(1,500)	1,500												(1,500)	O A
		(960)					(960)			960			(960)		
c)	24,000				24,000									24,000	O A
					(16,000)		16,000		16,000				16,000		

AACSB: Analytic
AICPA BB: Critical Thinking

AICPA FN: Reporting

Blooms: Apply

Difficulty: 3 Hard

Learning Objective: 02-03 Show how supplies affect financial statements

Learning Objective: 02-04 Show how prepaid items affect financial statements.

Learning Objective: 02-05 Show how unearned revenues affect financial statements

Topic: Accounting for supplies

Topic: Accounting for unearned revenues

Topic: Prepaid items

99. The following data were taken from the accounting records of Lorenzo Company. Except where indicated, the balances are as of December 31, 2013 before closing entries have been made.

Service revenue	\$ 83,000
Retained earnings	47,500
Accounts receivable	13,250
Salaries expense	44,000
Operating expense	7,700
Accounts payable	11,400
Supplies expense	380
Prepaid rent	2,000
Common stock	45,000
Supplies	200
Dividends	1,200
Insurance expense	800
Rent expense	10,000
Unearned revenue	765

Required:

- List the accounts that should be closed at the end of 2013.
- Prepare an income statement for Lorenzo Company for 2013.
- What is the balance in retained earnings after closing entries have been made?

a) The accounts that should be closed are:

- Service revenue
- Salaries expense
- Operating expense
- Supplies expense
- Insurance expense
- Rent expense
- Dividends

b)

Lorenzo Company		
Income Statement		
For the Year Ended December 31, 2013		
Service revenue		\$ 83,000
Salaries expense	44,000	
Operating expense	7,700	
Rent expense	380	
Supplies expense	10,000	62,080
Net Income		<u>\$ 20,920</u>

c)

Beginning Retained earnings	\$47,500
Add: Net income	20,920
Less: Dividends	<u>(1,200)</u>
Ending Retained earnings	\$67,220

AACSB: Analytic
AICPA BB: Critical Thinking
AICPA FN: Reporting
Blooms: Apply
Difficulty: 2 Medium

Learning Objective: 02-06 Explain the accounting cycle including adjustments and the closing process
Learning Objective: 02-07 Prepare financial statements based on accrual accounting

Topic: The Closing Process
Topic: The Income Statement
Topic: The Statement of Changes in Equity

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

- 1) ___ Purchased supplies on account.
- 2) ___ Recorded the accrual of \$1,000 in salaries to be paid later.
- 3) ___ Issued common stock for \$20,000 in cash.
- 4) ___ Earned revenue to be collected next year.
- 5) ___ Paid \$2,000 in dividends to its stockholders.
- 6) ___ Received cash from customers in #4 above.
- 7) ___ Paid the salaries accrued in #2 above.
- 8) ___ Received \$500 from a customer for services to be provided later.

1) AS 2) CE 3) AS 4) AS 5) AU 6) AE 7) AU 8) AS

Feedback:

- 1) Assets (supplies) increased, Liabilities (accounts payable) increased
- 2) Liabilities (salaries payable) increased, Equity (retained earnings from salaries expense) decreased
- 3) Assets (cash) increased, Equity (common stock) increased
- 4) Assets (accounts receivable), Equity (retained earnings from revenue) increased
- 5) Assets (cash) decreased, Equity (retained earnings from dividends) decreased
- 6) Assets (cash) increased, Assets (accounts receivable) decreased
- 7) Assets (cash) decreased, Liabilities (salaries payable) decreased
- 8) Assets (cash) increased, Liabilities (unearned revenue) increased

AACSB: Analytic
AICPA BB: Critical Thinking
AICPA FN: Measurement
Blooms: Apply
Difficulty: 1 Easy

Learning Objective: 02-08 Classify accounting events into asset source; asset use; asset exchange; and claims exchange transactions.

Topic: Asset Exchange Transactions
Topic: Asset Source Transactions
Topic: Asset Use Transactions
Topic: Claims Exchange Transactions

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

- 1) _____ Made adjusting entry to recognize interest revenue on investments.
- 2) _____ Borrowed funds from the bank.
- 3) _____ Paid rent in advance for the next six months.
- 4) _____ Paid cash to settle accrued salary expense.
- 5) _____ Purchased supplies on account.
- 6) _____ Collected accounts receivable.
- 7) _____ Sold land.

1) NA 2) FA 3) OA 4) OA 5) NA 6) OA 7) IA

Feedback:

- 1) Adjusting entries never affect cash flows
- 2) Borrowing cash is a financing activity
- 3) Paying rent, including paying in advance, is an operating activity
- 4) Paying salaries is an operating activity
- 5) Making purchase on account does not affect cash flows
- 6) Collecting cash from customers is an operating activity
- 7) Purchasing and selling long-lived assets is an investing activity

AACSB: Analytic
AICPA BB: Critical Thinking
AICPA FN: Reporting
Blooms: Apply
Difficulty: 2 Medium

Learning Objective: 02-07 Prepare financial statements based on accrual accounting
Topic: The Statement of Cash Flows

102. Jack Grimes started a consulting business, Grimes Consulting, on January 1, 2013 by issuing \$7,000 of common stock. In addition, the following events occurred in 2013.

Provided services on account, \$25,500.

Paid cash for \$11,500 in operating expenses.

Collected \$9,000 of the revenue that was previously recorded on account.

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 + Common Stock + Retained Earnings

1)

2)

3)

4)

5)

- b) Prepare an income statement and statement of cash flows for 2013.

a)

	ASSETS	=	LIABILITIES	+	EQUITY
1)	+\$ 7,000				+\$7,000
2)	+\$25,500				+25,500
3)	-11,500				-11,500
4)	+ 9,000				
	- 9,000				
5)	- 4,000				- 4,000
Total	<u>\$17,000</u>	=	<u>0</u>	+	<u>\$17,000</u>

b)

Grimes Consulting	
Income Statement	
For the Year Ended December 31, 2013	
Service Revenue	\$ 25,500
Operating expense	<u>11,500</u>
Net Income	<u>\$ 14,000</u>

Grimes Consulting		
Statement of Cash Flows		
For the Year Ended December 31, 2013		
Cash flows from operating activities		
Cash receipts from customers	\$ 9,000	
Cash payment for expenses	<u>(11,500)</u>	
Net cash flow from operating activities		\$ (2,500)
Cash flows for investing activities		\$ -
Cash flows from financing activities		
Cash receipt from issuance of stock	\$ 7,000	
Cash payment for dividends	<u>(4,000)</u>	
Net cash flow from financing activities		\$ 3,000
Net increase in cash		500
Plus: Beginning cash balance		<u>-</u>
Ending cash balance		<u>\$ 500</u>

AACSB: Analytic
AICPA BB: Critical Thinking
AICPA FN: Reporting
Blooms: Apply
Difficulty: 2 Medium

Learning Objective: 02-01 Show how receivables affect financial statements
Learning Objective: 02-07 Prepare financial statements based on accrual accounting
Topic: Accounting for accounts receivable
Topic: The Income Statement
Topic: The Statement of Cash Flows

103. Thiessen Company started its business by issuing \$7,000 of common stock on January 1, 2013. The company performed \$18,000 of service for customers on account in 2013. It collected \$12,500 of this amount in 2013, recorded expenses on account of \$14,500, paid \$11,000 of the payables owed, and paid a \$300 dividend to the stockholders.

Required:

- What is the amount of total assets at the end of 2013?
- What is the amount of cash on hand at the end of 2013?
- What is the net income for 2013?
- Prepare a balance sheet for 2013.

- $\$7,000 + 18,000 - 11,000 - 300 = \$13,700$ Total assets
- $\$7,000 + 12,500 - 11,000 - 300 = \$8,200$ Cash on hand
- $\$18,000 - 14,500 = \$3,500$ Net income
-

Thiessen Company		
Balance Sheet		
As of December 31, 2013		
Assets		
Cash	\$ 8,200	
Accounts receivable	<u>5,500</u>	<u>\$ 13,700</u>
Liabilities		
Accounts payable		\$ 3,500
Stockholders' equity		
Common stock	7,000	
Retained earnings	<u>3,200</u>	<u>10,200</u>
Total liabilities and stockholders' equity		<u>\$ 13,700</u>

AACSB: Analytic
AICPA BB: Critical Thinking
AICPA FN: Reporting
Blooms: Apply
Difficulty: 3 Hard

Learning Objective: 02-01 Show how receivables affect financial statements
Learning Objective: 02-02 Show how payables affect financial statements
Learning Objective: 02-07 Prepare financial statements based on accrual accounting
Topic: Accounting for accounts payable
Topic: Accounting for accounts receivable
Topic: The Balance Sheet

104. The Ping Corporation was started on January 1, 2013, with the issuance of \$20,000 of stock. During 2013, the company provided \$30,000 of services on account and collected \$18,000 of that amount. Ping incurred \$23,000 of expenses, and paid \$20,000 of that amount during 2013. On December 31, 2013, Ping paid investors a \$800 cash dividend and accrued \$2,000 of salary expense.

Required:

- 1) What is the net income for year ending December 31, 2013?
- 2) Prepare Ping Corporation's Statement of Cash Flows for the year ended December 31, 2013.
- 3) What is the balance in Ping's retained earnings account after closing entries are made on December 31, 2013?

1) Net income: \$5,000 (\$30,000 - 23,000 - 2,000)

2)

Ping Corporation		
Statement of Cash Flows		
For the Year Ended December 31, 2013		
Cash flows from operating activities		
Cash receipts from customers	\$ 18,000	
Cash payment for expenses	<u>(20,000)</u>	
Net cash flow from operating activities		\$ (2,000)
Cash flows for investing activities		\$ -
Cash flows from financing activities		
Cash receipt from issuance of stock	\$ 20,000	
Cash payment for dividends	<u>(800)</u>	
Net cash flow from financing activities		\$ 19,200
Net increase in cash		17,200
Plus: Beginning cash balance		<u>-</u>
Ending cash balance		<u>\$ 17,200</u>

3) Retained earnings: \$4,200 (\$5,000 - 800)

AACSB: Analytic
AICPA BB: Critical Thinking
AICPA FN: Reporting
Blooms: Apply
Difficulty: 3 Hard

Learning Objective: 02-07 Prepare financial statements based on accrual accounting

105. Consider the following independent scenarios:

a) At January 1, 2013, accounts receivable was \$22,000. Cash collected on accounts receivable during 2011 was \$15,000. At December 31, 2011, accounts receivable was \$30,000.

What were the revenues earned on account during 2011?

b) At January 1, 2013, accounts payable was \$19,000. During 2013, expenses on account were \$28,000. At December 31, 2013, accounts payable was \$15,000.

What was the amount of cash paid on accounts payable during 2013?

c) At January 1, 2013, the balance in the prepaid insurance account was \$480. On March 1, 2013, the company paid \$2,940 for insurance coverage for the next 12 months. What was the amount of insurance expense for 2013?

d) At January 1, 2013, the balance in the supplies account was \$550. At December 31, 2013, the company counted \$600 of supplies on hand. The company reported supplies expense in 2013 of \$2,300. What was the total of supplies purchases during 2013?

a) $\$22,000 \text{ beg. AR} + X \text{ rev. on acct.} - \$15,000 \text{ cash coll. on AR} = \$30,000 \text{ end. AR}$

$X = \$23,000$

b) $\$19,000 \text{ beg. AP} + \$28,000 \text{ exp. on acct.} - X \text{ cash paid on AP} = \$15,000 \text{ end. AP}$

$X = \$32,000$

c) $\$480 \text{ insurance expense for Jan. and Feb.} + \$2,450 \text{ for March-December } (\$2,940/12 \text{ months} \times 10 \text{ months}) = \$2,930 \text{ insurance expense}$

d) $\$550 \text{ beg. supplies} + X \text{ supplies purchased} - \$600 \text{ end. supplies} = \$2,300 \text{ supplies exp.}$

$X = \$2,350$

AACSB: Analytic
AICPA BB: Critical Thinking
AICPA FN: Measurement
Blooms: Analyze
Difficulty: 3 Hard

Learning Objective: 02-01 Show how receivables affect financial statements

Learning Objective: 02-02 Show how payables affect financial statements

Learning Objective: 02-03 Show how supplies affect financial statements

Learning Objective: 02-04 Show how prepaid items affect financial statements.

Topic: Accounting for accounts payable

Topic: Accounting for accounts receivable

Topic: Accounting for supplies

Topic: Prepaid items

106. Washington Co. began operations on January 1, 2013, by issuing \$10,000 in common stock to the stockholders. On March 1, 2013, Washington accepted an advance of \$18,000 to provide services for a one-year period beginning April 1. During 2013, services in the amount of \$16,000 were provided to customers on account, and 80% of this amount was collected by year-end. During 2013, operating expenses incurred on account were \$12,000, and 60% of this amount was paid by year-end. During the year, Washington paid \$600 to purchase supplies. By year-end, \$540 of the supplies had been used. Dividends to stockholders were \$1,000 during the year. During 2013, Washington paid salaries of \$14,000, and on December 31, 2013, the company accrued salaries of \$1,400. Washington recorded all appropriate adjusting entries at year end.

- 1) What would Washington report for service revenue for 2013?
- 2) What would Washington report for salaries expense for 2013?
- 3) What would Washington report for supplies expense for 2013?
- 4) What would the amount be for net cash flows from operating activities for 2013?
- 5) What is the net income for 2013?
- 6) What would the balance in the retained earnings account be at December 31, 2013?

- 1) \$16,000 rev. on account + (\$18,000 x 9/12) rev. earned on contract = \$29,500 Rev.
- 2) \$14,000 salaries expense paid + \$1,400 accrued salaries at year end = \$15,400 Sal. Exp.
- 3) \$540 Supplies Exp.
- 4) \$18,000 + \$12,800(\$16,000 x .80) - \$7,200(\$12,000 x .60) - \$600 - \$14,000 = \$9,000 CF from OA
- 5) \$29,500 revenue - \$12,000 oper. exp. - \$15,400 sal. exp. - \$540 supp. exp. = \$1,560 NI
- 6) \$1,560 NI - \$1,000 Div. = \$560 RE bal.

AACSB: Analytic
AICPA BB: Critical Thinking
AICPA FN: Measurement
AICPA FN: Reporting
Blooms: Analyze
Difficulty: 3 Hard

Learning Objective: 02-01 Show how receivables affect financial statements
Learning Objective: 02-02 Show how payables affect financial statements
Learning Objective: 02-03 Show how supplies affect financial statements
Learning Objective: 02-04 Show how prepaid items affect financial statements.
Learning Objective: 02-05 Show how unearned revenues affect financial statements
Topic: Accounting for accounts receivable
Topic: Accounting for prepaid items
Topic: Accounting for salary expense
Topic: Accounting for supplies
Topic: Accounting for unearned revenues

107. In a company's annual report, the reader will find a company's income statement, statement of changes in stockholder's 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 has against its assets?
- 5) What was the total amount of cash received by the issuance of common stock?
- 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 stockholder's equity.
- 2) Balance sheet.
- 3) Statement of cash flows.
- 4) Balance sheet.
- 5) Statement of cash flows and statement of changes in stockholder's equity.
- 6) Income statement and statement of changes in stockholder's equity.
- 7) Statement of cash flows. (Direct method)
- 8) Income statement.
- 9) Balance sheet & statement of changes in stockholder's equity.
- 10) Statement of cash flows.

AACSB: Analytic

AICPA BB: Critical Thinking

AICPA FN: Reporting

Blooms: Understand

Difficulty: 2 Medium

Learning Objective: 02-07 Prepare financial statements based on accrual accounting

Topic: The Balance Sheet

Topic: The Income Statement

Topic: The Statement of Cash Flows

Topic: The Statement of Changes in Equity

108. The following events apply to Bowen's Cleaning Service for 2013.

- 1) Issued stock for \$14,000 cash.
- 2) On May 1, paid \$9,000 for one year's rent in advance.
- 3) Purchased on account \$2,500 of supplies to be used in the business.
- 4) Performed services of \$18,400 and received cash.
- 5) At December 31, an inventory of supplies showed that \$360 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. Show the year-end total for each account.

	Assets				=	Liab	+	Stockholders' Equity	
	Cash	AR	Supp.	Ppd. Rent		AP		CS	+ RE
1	14,000							14,000	
2	(9,000)			9,000					
3			2,500			2,500			
4	18,400								18,400
5			(2,140)						(2,140)
6				(6,000)					(6,000)
Totals	\$ 23,400	\$ 0	\$ 360	\$ 3,000		\$ 2,500		\$ 14,000	\$10,260

AACSB: Analytic

AICPA BB: Critical Thinking

AICPA FN: Measurement

Blooms: Apply

Difficulty: 2 Medium

Learning Objective: 02-03 Show how supplies affect financial statements

Learning Objective: 02-04 Show how prepaid items affect financial statements.

Topic: Accounting for supplies

Topic: Prepaid items

109. Using the form below, record each of the following 2013 transactions for Morris 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

AACSB: Analytic
AICPA BB: Critical Thinking
AICPA FN: Measurement
Blooms: Apply
Difficulty: 2 Medium

Learning Objective: 02-01 Show how receivables affect financial statements

Learning Objective: 02-02 Show how payables affect financial statements

Learning Objective: 02-04 Show how prepaid items affect financial statements.

Learning Objective: 02-05 Show how unearned revenues affect financial statements

Topic: Accounting for unearned revenues

Topic: Prepaid items

110. 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. (Direct method)
- 8) Income statement.
- 9) Balance sheet & statement of changes in stockholders' equity.
- 10) Statement of cash flows.

AACSB: Analytic
AICPA BB: Critical Thinking
AICPA FN: Reporting
Blooms: Understand
Difficulty: 2 Medium

Learning Objective: 02-07 Prepare financial statements based on accrual accounting
Topic: The Balance Sheet

Topic: The Income Statement
Topic: The Statement of Cash Flows
Topic: The Statement of Changes in Equity

111. The following transactions apply to Kent Company.

- 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 account
- 5) Collected \$15,000 cash from customers for services provided in event #2
- 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) Event	Cash Flow	b) 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: Measurement
AICPA FN: Reporting
Blooms: Apply
Difficulty: 2 Medium

Learning Objective: 02-01 Show how receivables affect financial statements

Learning Objective: 02-02 Show how payables affect financial statements

Learning Objective: 02-08 Classify accounting events into asset source; asset use; asset exchange; and claims exchange transactions.

Topic: Accounting for accounts payable
Topic: Accounting for accounts receivable
Topic: Asset Exchange Transactions
Topic: Asset Source Transactions

Topic: Asset Use Transactions
Topic: Claims Exchange Transactions

112. Danielle McLynn started a consulting business, McLynn Consulting, on January 1, 2013, and the business engaged in the following transactions during the year:

1. Issued \$8,000 of common stock for cash
2. Provided services on account, \$26,500
3. Incurred \$17,500 of operating expense, but only paid \$12,000 of this amount
4. Collected \$19,000 of the revenue that was previously recorded on account
5. Paid a cash dividend of \$4,500 to the stockholders

Required:

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

Event	Assets	=	Liabilities	+	Common Stock	+	Retained Earnings
1							
2							
3							
4							
5							
Totals							

- b) Prepare an income statement and statement of cash flows for 2013.

Event	Assets	=	Liabilities	+	Common Stock	+	Retained Earnings
1	8,000				8,000		
2	26,500						26,500
3	(12,000)		5,500				(17,500)
4	19,000						
	(19,000)						
5	(4,500)						(4,500)
Totals	18,000		5,500		8,000		4,500

a)

b)

McLynn Consulting	
Income Statement	
For the Year Ended December 31, 2013	
Service Revenue	\$ 26,500
Operating expense	<u>17,500</u>
Net Income	<u>\$ 9,000</u>

McLynn Consulting		
Statement of Cash Flows		
For the Year Ended December 31, 2013		
Cash flows from operating activities		
Cash receipts from customers	\$ 19,000	
Cash payment for expenses	<u>(12,000)</u>	
Net cash flow from operating activities		\$ 7,000
Cash flows for investing activities		\$ -
Cash flows from financing activities		
Cash receipt from issuance of stock	\$ 8,000	
Cash payment for dividends	<u>(4,500)</u>	
Net cash flow from financing activities		<u>\$ 3,500</u>
Net increase in cash		10,500
Plus: Beginning cash balance		<u>-</u>
Ending cash balance		<u>\$10,500</u>

AACSB: Analytic
AICPA BB: Critical Thinking
AICPA FN: Reporting
Blooms: Apply
Difficulty: 3 Hard

Learning Objective: 02-01 Show how receivables affect financial statements
Learning Objective: 02-02 Show how payables affect financial statements
Learning Objective: 02-07 Prepare financial statements based on accrual accounting
Topic: Accounting for accounts payable
Topic: Accounting for accounts receivable
Topic: The Income Statement
Topic: The Statement of Cash Flows

113. Patterson Company was founded in 2013 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) Which of the above transactions would require adjusting entries at year end?
- b) Why are adjusting entries 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
AACSB: Communication
AICPA BB: Critical Thinking
AICPA FN: Measurement
Blooms: Understand
Difficulty: 2 Medium
Learning Objective: 02-06 Explain the accounting cycle including adjustments and the closing process
Topic: Adjusting Entries

114. Jerry Mathers started his business by issuing \$4,000 of common stock on January 1, 2013. Jerry performed \$8,500 of service on account in 2013, and he collected \$6,200 of this amount by year end. He paid operating expenses of \$6,900 and paid a \$900 dividend to the stockholders.

Required:

- What is the amount of total assets at the end of 2013?
- What is the amount of cash on hand at the end of 2013?
- What is net income for 2013?
- Prepare a balance sheet for 2013.

- $\$4,000 + \$8,500 - \$6,900 - \$900 = \$4,700$ Total assets
- $\$4,000 + \$6,200 - \$6,900 - \$900 = \$2,400$ Cash balance
- $\$8,500 - \$6,900 = \$1,600$ Net Income
-

Balance Sheet		
As of December 31, 2013		
Assets		
Cash	\$ 2,400	
Accounts receivable	<u>2,300</u>	<u>\$ 4,700</u>
Liabilities		
Stockholders' equity		
Common stock	4,000	
Retained earnings	<u>700</u>	<u>4,700</u>
Total liabilities and stockholders' equity		<u>\$ 4,700</u>

AACSB: Analytic
AICPA BB: Critical Thinking
AICPA FN: Measurement
AICPA FN: Reporting
Blooms: Apply
Difficulty: 2 Medium
Learning Objective: 02-01 Show how receivables affect financial statements
Learning Objective: 02-07 Prepare financial statements based on accrual accounting
Topic: Accounting for accounts receivable
Topic: The Balance Sheet
Topic: The Income Statement

115. The effects of transactions occurring during 2013 and their related end-of-year adjustments have been recorded below using the accounting equation.

	Assets				=	Liab	+	Stockholders' Equity		
	Cash	AR	Ppd. Ins.	Land		AP	Uneram. Rev.	CS	+	RE
1	40,000							40,000		
2	(10,000)			10,000						
3		24,000								24,000
4	16,000						16,000			
5	16,000	(16,000)								
6	(2,400)		2,400							
7						12,000				(12,000)
8	10,000			(10,000)						
9			(2,000)							(2,000)
10							(10,000)			10,000
Totals	\$ 69,600	\$ 8,000	\$ 400	\$ -		\$ 12,000	\$ 6,000	\$ 40,000		\$ 20,000

Required:

With your knowledge of transaction analysis using an accounting equation,

- Prepare an income statement for 2013, and
- Prepare a statement of cash flows for 2013.

a)

Income Statement	
For the Year Ended December 31, 2013	
Revenue	\$ 34,000
Operating expense	\$ (12,000)
Insurance expense	(2,000)
Net Income	<u>\$ 20,000</u>

b)

Statement of Cash Flows		
For the Year Ended December 31, 2013		
Cash flows from operating activities		
Cash receipts from revenue	\$ 32,000	
Cash payment for insurance	<u>(2,400)</u>	
Net cash flow from operating activities		\$ 29,600
Cash flows for investing activities		
Cash receipt from sale of land	\$ 10,000	
Cash payment for land	<u>(10,000)</u>	
Net cash flow from investing activities		\$ -
Cash flows from financing activities		
Cash receipt from issuance of stock	\$ 40,000	
Net cash flow from financing activities		<u>\$ 40,000</u>
Net increase in cash		69,600
Plus: Beginning cash balance		<u>-</u>
Ending cash balance		<u><u>\$ 69,600</u></u>

AACSB: Analytic
 AICPA BB: Critical Thinking
 AICPA FN: Reporting
 Blooms: Analyze
 Difficulty: 3 Hard

Learning Objective: 02-07 Prepare financial statements based on accrual accounting
 Topic: The Income Statement
 Topic: The Statement of Cash Flows

116. Kramer Corporation began business operations and experienced the following transactions during 2013:

- 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 account.
- 4) Collected \$23,000 cash from customers.
- 5) Paid \$15,000 on accounts payable.

Required:

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

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

	Cash	+	Acc	=	Acc	+	C Stk	+	Ret	Cash
			Rec		Pay				Earn	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

AACSB: Analytic
AICPA BB: Critical Thinking
AICPA FN: Measurement
AICPA FN: Reporting
Blooms: Apply

Difficulty: 1 Easy

Learning Objective: 02-01 Show how receivables affect financial statements

Learning Objective: 02-02 Show how payables affect financial statements

Topic: Accounting for accounts payable

Topic: Accounting for accounts receivable

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

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

- 1) BS 2) CE and CF 3) IS 4) BS 5) IS 6) BS and CE 7) BS 8) CF 9) CE 10) CE and CF 11) BS
12) BS

AACSB: Analytic
AICPA BB: Critical Thinking
AICPA FN: Reporting
Blooms: Understand
Difficulty: 2 Medium

Learning Objective: 02-07 Prepare financial statements based on accrual accounting

Topic: The Balance Sheet

Topic: The Income Statement

Topic: The Statement of Cash Flows

Topic: The Statement of Changes in Equity

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

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

- 1) NA 2) FA 3) OA 4) OA 5) FA 6) OA 7) IA

AACSB: Analytic
AICPA BB: Critical Thinking
AICPA FN: Reporting
Blooms: Understand
Difficulty: 2 Medium

Learning Objective: 02-07 Prepare financial statements based on accrual accounting

Topic: The Statement of Cash Flows

119. Tuttle Company shows the following transactions for the accounting period ending December 31, 2013:

- 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, 2013
- 5) Purchase supplies for \$10,500 cash
- 6) Physical count shows \$3,250 of supplies left over on December 31, 2013
- 7) Recorded adjustment for prepaid rent used

Show how the above transactions and year end adjustments affect the financial statements on the accounting equation:

	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		8,000	23,450

AACSB: Analytic
AICPA BB: Critical Thinking
AICPA FN: Reporting
Blooms: Apply
Difficulty: 2 Medium

Learning Objective: 02-01 Show how receivables affect financial statements
Learning Objective: 02-03 Show how supplies affect financial statements
Learning Objective: 02-04 Show how prepaid items affect financial statements.
Topic: Accounting for accounts receivable
Topic: Accounting for supplies
Topic: Prepaid items

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

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

1) AE 2) CE 3) AS 4) CE 5) AU 6) AS 7) AU 8) AE 9) AU 10) AS

AACSB: Analytic
AICPA BB: Critical Thinking
AICPA FN: Measurement
Blooms: Understand
Difficulty: 2 Medium

Learning Objective: 02-08 Classify accounting events into asset source; asset use; asset exchange; and claims exchange transactions.

Topic: Asset Exchange Transactions
Topic: Asset Source Transactions
Topic: Asset Use Transactions
Topic: Claims Exchange Transactions

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

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

1) AS 2) AE 3) AS 4) AU 5) AS 6) AS 7) AE 8) CE 9) AS 10) AU

Feedback: 1) Issuing common stock is an asset source transaction that increases cash
2) Paying rent in advance is an asset exchange transaction that increases prepaid rent and decreases cash
3) Providing services for cash is an asset source transaction that increases cash
4) Paying creditors is an asset use transaction that decreases cash
5) Receiving an advance payment is an asset source transaction that increases cash
6) Providing services on account is an asset source transaction that increases accounts receivable
7) Collecting on accounts receivable is an asset exchange transaction that increases cash and decreases accounts receivable
8) Accruing salary expense is a claims exchange transaction that increases accounts payable and decreases retained earnings
9) Borrowing cash is an asset source transaction that increases cash
10) Recognizing supplies expense is an asset use transaction that decreases supplies

AACSB: Analytic
AICPA BB: Critical Thinking
AICPA FN: Measurement
Blooms: Understand
Difficulty: 2 Medium

Learning Objective: 02-08 Classify accounting events into asset source; asset use; asset exchange; and claims exchange transactions.

Topic: Asset Exchange Transactions
Topic: Asset Source Transactions
Topic: Asset Use Transactions
Topic: Claims Exchange Transactions

122. Giambrone Corporation began business operations and experienced the following transactions during 2013:

- 1) Issued common stock for \$15,000 cash.
- 2) Issued a \$10,000, 6% 4-year note to the bank on February 1.
- 3) Provided services to customers for \$40,000 cash.
- 4) Paid \$19,000 for operating expenses.
- 5) Accrued interest expense on the note.
- 6) Paid a \$2,000 dividend to shareholders.

Required:

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

	Assets	=	Liabilities		+	Stockholders' Equity		Revenue	-	Expense	=	NI	Cash Flow	
	Cash		Notes Payable	Interest Payable		Common Stock	Retained Earnings							
1														
2														
3														
4														
5														
6														
Totals														

	Assets	=	Liabilities		+	Stockholders' Equity		Revenue	-	Expense	=	NI	Cash Flow	
	Cash		Notes Payable	Interest Payable		Common Stock	Retained Earnings							
1	15,000					15,000							15,000	FA
2	10,000		10,000										10,000	FA
3	40,000						40,000	40,000				40,000	40,000	OA
4	(19,000)						(19,000)			19,000		(19,000)	(19,000)	OA
5				550			(550)			550		(550)		
6	(2,000)						(2,000)						(2,000)	FA
Totals	44,000		10,000	550		15,000	18,450	40,000		19,550		20,450	44,000	

AACSB: Analytic
AICPA BB: Critical Thinking
AICPA FN: Measurement
AICPA FN: Reporting
Blooms: Apply
Difficulty: 1 Easy

Learning Objective: 02-01 Show how receivables affect financial statements

Learning Objective: 02-02 Show how payables affect financial statements

Topic: Accounting for accounts payable

Topic: Accounting for accounts receivable