

Chapter 002 Review of the Accounting Process

True / False Questions

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

TRUE

AACSB: Reflective thinking

Blooms: Knowledge

Learning Objective: 1

Level of Learning: 1

2. Debits increase asset accounts and decrease liability accounts.

TRUE

AACSB: Reflective thinking

Blooms: Knowledge

Learning Objective: 2

Level of Learning: 1

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

FALSE

AACSB: Reflective thinking

Blooms: Knowledge

Learning Objective: 2

Level of Learning: 1

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

FALSE

AACSB: Reflective thinking

Blooms: Knowledge

Learning Objective: 3

Level of Learning: 1

Chapter 002 Review of the Accounting Process

5. Adjusting journal entries are required to comply with the realization and matching principles.

TRUE

AACSB: Reflective thinking

Blooms: Knowledge

Learning Objective: 4

Level of Learning: 1

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

FALSE

AACSB: Reflective thinking

Blooms: Knowledge

Learning Objective: 4

Level of Learning: 1

7. The adjusted trial balance contains only permanent accounts.

FALSE

AACSB: Reflective thinking

Blooms: Knowledge

Learning Objective: 5

Level of Learning: 1

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

FALSE

AACSB: Reflective thinking

Blooms: Knowledge

Learning Objective: 6

Level of Learning: 1

Chapter 002 Review of the Accounting Process

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

FALSE

*AACSB: Reflective thinking
Blooms: Knowledge
Learning Objective: 6
Level of Learning: 1*

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

TRUE

*AACSB: Reflective thinking
Blooms: Knowledge
Learning Objective: 6
Level of Learning: 1*

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

FALSE

*AACSB: Reflective thinking
Blooms: Knowledge
Learning Objective: 6
Level of Learning: 1*

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

TRUE

*AACSB: Reflective thinking
Blooms: Knowledge
Learning Objective: 7
Level of Learning: 1*

Chapter 002 Review of the Accounting Process

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

TRUE

*AACSB: Reflective thinking
Blooms: Knowledge
Learning Objective: 7
Level of Learning: 1*

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

FALSE

*AACSB: Reflective thinking
Blooms: Knowledge
Learning Objective: Appendix B
Level of Learning: 2*

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

TRUE

*AACSB: Reflective thinking
Blooms: Knowledge
Learning Objective: Appendix C
Level of Learning: 1*

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

FALSE

*AACSB: Reflective thinking
Blooms: Knowledge
Learning Objective: Appendix C
Level of Learning: 1*

Chapter 002 Review of the Accounting Process

Essay Questions

Listed below are ten terms followed by a list of phrases that describe or characterize five of the terms. Match each phrase with the correct term by placing the letter designating the best term in the space provided by the phrase.

Terms:

- A. Accruals
- B. Adjusted trial balance
- C. Adjusting entries
- D. Bad debt expense
- E. Balance sheet
- F. Prepayments
- G. Expenses
- H. Post-closing trial balance
- I. Statement of cash flows
- J. Unadjusted trial balance

17. ____ Assets or liabilities created when recognition precedes cash flows.

A

AACSB: Reflective thinking
Blooms: Comprehension

18. ____ Assets or liabilities created when cash flows precede recognition.

F

AACSB: Reflective thinking
Blooms: Comprehension

Chapter 002 Review of the Accounting Process

19. ____ A list of accounts and balances containing the source data for preparation of financial statements.

B

AACSB: Reflective thinking
Blooms: Comprehension

20. ____ A list of accounts and their balances prepared before the effects of internal transactions are recorded.

J

AACSB: Reflective thinking
Blooms: Comprehension

21. ____ A list of only permanent accounts and their balances prepared to show that the accounting equation is in balance.

H

AACSB: Reflective thinking
Blooms: Comprehension

Chapter 002 Review of the Accounting Process

Listed below are ten terms followed by a list of phrases that describe or characterize five of the terms. Match each phrase with the correct term by placing the letter designating the best term in the space provided by the phrase.

Terms:

- A. Accruals
- B. Adjusted trial balance
- C. Adjusting entries
- D. Bad debt expense
- E. Balance sheet
- F. Prepayments
- G. Expenses
- H. Post-closing trial balance
- I. Statement of cash flows
- J. Unadjusted trial balance

22. ____ Reports operating, investing, and financing activities.

I

AACSB: Reflective thinking
Blooms: Comprehension

23. ____ Records internal transactions not previously reported.

C

AACSB: Reflective thinking
Blooms: Comprehension

24. ____ Portrays financial position at a point in time.

E

AACSB: Reflective thinking
Blooms: Comprehension

Chapter 002 Review of the Accounting Process

25. ____ Represents outflows of resources incurred to generate revenues.

G

AACSB: Reflective thinking
Blooms: Comprehension

26. ____ The last step in the accounting processing cycle.

H

AACSB: Reflective thinking
Blooms: Comprehension

Listed below are ten terms followed by a list of phrases that describe or characterize five of the terms. Match each phrase with the correct term by placing the letter designating the best term in the space provided by the phrase.

Terms:

- A. Closing entries
- B. Credit
- C. Debit
- D. Gains
- E. General journal
- F. General ledger
- G. Losses
- H. Periodic system
- I. Perpetual system
- J. Prepayments

27. ____ Recorded when there are dispositions of assets for consideration in excess of book values.

D

AACSB: Reflective thinking
Blooms: Comprehension

Chapter 002 Review of the Accounting Process

28. ____ Recorded when there are dispositions of assets for consideration less than book values.

G

AACSB: Reflective thinking
Blooms: Comprehension

29. ____ Requires adjusting entries to update the inventory account.

H

AACSB: Reflective thinking
Blooms: Comprehension

30. ____ Requires entries to cost of goods sold account when merchandise is sold.

I

AACSB: Reflective thinking
Blooms: Comprehension

31. ____ When cash flow precedes either expense or revenue recognition.

J

AACSB: Reflective thinking
Blooms: Comprehension

Chapter 002 Review of the Accounting Process

Listed below are ten terms followed by a list of phrases that describe or characterize five of the terms. Match each phrase with the correct term by placing the letter designating the best term in the space provided by the phrase.

Terms:

- A. Closing entries
- B. Credit
- C. Debit
- D. Gains
- E. General journal
- F. General ledger
- G. Losses
- H. Periodic system
- I. Perpetual system
- J. Prepayments

32. ____ Refers to the right side of an account.

B

AACSB: Reflective thinking
Blooms: Comprehension

33. ____ Asset and expense accounts normally have this type of balance.

C

AACSB: Reflective thinking
Blooms: Comprehension

34. ____ Used to record any type of transaction in chronological order.

E

AACSB: Reflective thinking
Blooms: Comprehension

Chapter 002 Review of the Accounting Process

35. ____ Contains all the accounts of an entity.

F

AACSB: Reflective thinking
Blooms: Comprehension

36. ____ Used to reset temporary accounts to a zero balance.

A

AACSB: Reflective thinking
Blooms: Comprehension

Listed below are ten terms followed by a list of phrases that describe or characterize five of the terms. Match each phrase with the correct term by placing the letter designating the best term in the space provided by the phrase.

Terms:

- A. Control accounts
- B. Journalize
- C. Liabilities
- D. Transaction analysis
- E. Special journals
- F. Revenues
- G. Source documents
- H. Retained earnings
- I. Post
- J. Unearned revenues

37. ____ Transfer balances from journals to ledgers.

I

AACSB: Reflective thinking
Blooms: Comprehension

Chapter 002 Review of the Accounting Process

38. ____ Record chronologically the effects of transactions in debit/credit form.

B

AACSB: Reflective thinking
Blooms: Comprehension

39. ____ Refers to nonowners' claims against the assets of a firm.

C

AACSB: Reflective thinking
Blooms: Comprehension

40. ____ Represents the cumulative amount of net income, less distributions to shareholders.

H

AACSB: Reflective thinking
Blooms: Comprehension

41. ____ Used to record repetitive types of transactions.

E

AACSB: Reflective thinking
Blooms: Comprehension

Chapter 002 Review of the Accounting Process

Listed below are ten terms followed by a list of phrases that describe or characterize five of the terms. Match each phrase with the correct term by placing the letter designating the best term in the space provided by the phrase.

Terms:

- A. Control accounts
- B. Journalize
- C. Liabilities
- D. Transaction analysis
- E. Special journals
- F. Revenues
- G. Source documents
- H. Retained earnings
- I. Post
- J. Unearned revenues

42. ____ Refers to inflows of assets from the sale of goods and services.

F

AACSB: Reflective thinking
Blooms: Comprehension

43. ____ Used to identify external transactions.

G

AACSB: Reflective thinking
Blooms: Comprehension

44. ____ Used to record repetitive types of transactions.

E

AACSB: Reflective thinking
Blooms: Comprehension

Chapter 002 Review of the Accounting Process

45. ____ Liabilities created by a customer's prepayment.

J

AACSB: Reflective thinking
Blooms: Comprehension

46. ____ Determines the effects of an event in terms of the accounting equation.

D

AACSB: Reflective thinking
Blooms: Comprehension

Listed below are ten terms followed by a list of phrases that describe or characterize the terms. Match each phrase with the correct term by placing the letter designating the best term in the space provided by the phrase.

Terms:

- A. Prepaid Expense
- B. Accrued liabilities
- C. Accrued receivables
- D. Unadjusted trial balance
- E. General ledger
- F. Revenues
- G. Post-closing trial balance
- H. Adjusting entries
- I. Temporary accounts
- J. Unearned revenues

47. ____ Refers to inflows of assets from the sale of goods and services.

F

AACSB: Reflective thinking
Blooms: Comprehension

Chapter 002 Review of the Accounting Process

48. ____ Records the effects of internal transactions.

H

AACSB: Reflective thinking
Blooms: Comprehension

49. ____ Cash received from a customer in advance of providing a good or service.

J

AACSB: Reflective thinking
Blooms: Comprehension

50. ____ Last step in the accounting processing cycle.

G

AACSB: Reflective thinking
Blooms: Comprehension

51. ____ Changes in the retained earnings component of shareholders' equity.

I

AACSB: Reflective thinking
Blooms: Comprehension

52. ____ Collection of storage areas, called accounts.

E

AACSB: Reflective thinking
Blooms: Comprehension

Chapter 002 Review of the Accounting Process

53. ____ Asset recorded when an expense is paid for in advance.

A

AACSB: Reflective thinking
Blooms: Comprehension

54. ____ Revenue earned before cash is received.

C

AACSB: Reflective thinking
Blooms: Comprehension

55. ____ A list of the general ledger accounts and their balances.

D

AACSB: Reflective thinking
Blooms: Comprehension

56. ____ Expenses incurred but not yet paid.

B

AACSB: Reflective thinking
Blooms: Comprehension

Chapter 002 Review of the Accounting Process

Multiple Choice Questions

57. The accounting equation can be stated as:

- A. $A + L - OE = 0$.
- B. $A - L + OE = 0$.
- C. $- A + L - OE = 0$.
- D.** $A - L - OE = 0$.

AACSB: Reflective thinking
Blooms: Knowledge
Learning Objective: 1
Level of Learning: 1

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

- A. Paying employees salaries.
- B. Purchasing equipment.
- C.** Depreciating equipment.
- D. Collecting a receivable.

AACSB: Reflective thinking
Blooms: Knowledge
Learning Objective: 1
Level of Learning: 2

59. Examples of internal transactions include all of the following except:

- A. Writing off an uncollectible account.
- B. Recording the expiration of prepaid insurance.
- C. Recording unpaid wages.
- D.** Paying wages to company employees.

AACSB: Reflective thinking
Blooms: Knowledge
Learning Objective: 1
Level of Learning: 2

Chapter 002 Review of the Accounting Process

60. XYZ Corporation receives \$100,000 from investors for issuing them shares of its stock. XYZ's journal entry to record this transaction would include a:

- A. Debit to investments.
- B. Credit to retained earnings.
- C. Credit to capital stock.**
- D. Credit to revenue.

AACSB: Analytic
Blooms: Analysis
Learning Objective: 1
Level of Learning: 2

61. Incurring an expense for advertising on account would be recorded by:

- A. Debiting liabilities.
- B. Crediting assets.
- C. Debiting an expense.**
- D. Debiting assets.

AACSB: Analytic
Blooms: Analysis
Learning Objective: 1
Level of Learning: 2

62. A sale on account would be recorded by:

- A. Debiting revenue.
- B. Crediting assets.
- C. Crediting liabilities.
- D. Debiting assets.**

AACSB: Analytic
Blooms: Analysis
Learning Objective: 2
Level of Learning: 2

Chapter 002 Review of the Accounting Process

63. Mary Parker Co. invested \$15,000 in ABC Corporation and received capital stock in exchange. Mary Parker Co.'s journal entry to record this transaction would include a:

- A. Debit to investments.
- B. Credit to retained earnings.
- C. Credit to capital stock.
- D. Debit to expense.

AACSB: Analytic
Blooms: Analysis
Learning Objective: 2
Level of Learning: 1

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

- A. Credit to cash.
- B. Debit to cash discount.
- C. Debit to note receivable.
- D. Credit to note receivable.

AACSB: Analytic
Blooms: Analysis
Learning Objective: 2
Level of Learning: 3

Chapter 002 Review of the Accounting Process

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

- | | | | |
|----|---|---------------|---------------|
| A. | Prepaid Rent | 12,000 | |
| | Rent expense | | 12,000 |
| B. | Cash | 12,000 | |
| | Unearned revenue | | 12,000 |
| C. | Interest expense | 12,000 | |
| | Interest payable | | 12,000 |
| D. | Bad debt expense | 12,000 | |
| | Allowance for uncollectible accounts | | 12,000 |

AACSB: Analytic
Blooms: Analysis
Learning Objective: 2
Level of Learning: 3

Chapter 002 Review of the Accounting Process

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

- | | | | |
|-----------|----------------------------|------------|------------|
| | Inventory | 620 | |
| | Accounts receivable | | 620 |
| | Sales | 960 | |
| A. | Revenue from sales | | 960 |
| | Accounts receivable | 960 | |
| | Sales revenue | | 960 |
| | Cost of goods sold | 620 | |
| B. | Inventory | | 620 |
| | Inventory | 620 | |
| | Gain on sale | 340 | |
| C. | Sales revenue | | 960 |
| | Accounts receivable | 960 | |
| | Sales revenues | | 620 |
| D. | Gain on sale | | 340 |

AACSB: Analytic
Blooms: Analysis
Learning Objective: 2
Level of Learning: 3

Chapter 002 Review of the Accounting Process

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

- | | | | |
|-----------|-----------------------------|--------------|--------------|
| A. | Inventory | 2,000 | |
| | Accounts payable | | 2,000 |
| | Cost of goods sold | 2,000 | |
| | Deferred revenue | 1,000 | |
| B. | Sales in advance | | 3,000 |
| | Cost of goods sold | 2,000 | |
| C. | Inventory payable | | 2,000 |
| | Cost of goods sold | 2,000 | |
| | Profit | 1,000 | |
| D. | Sales payable | | 3,000 |

AACSB: Analytic
Blooms: Analysis
Learning Objective: 2
Level of Learning: 3

68. Which of the following accounts has a debit balance?

- A. Accounts payable.
- B. Accrued taxes.
- C. Accumulated depreciation.
- D.** Bad debt expense.

AACSB: Reflective thinking
Blooms: Knowledge
Learning Objective: 3
Level of Learning: 2

Chapter 002 Review of the Accounting Process

69. An example of a contra account is:

- A. Depreciation expense.
- B. Accounts receivable.
- C. Sales revenue.
- D.** Accumulated depreciation.

AACSB: Reflective thinking
Blooms: Knowledge
Learning Objective: 3
Level of Learning: 2

70. Making insurance payments in advance is an example of:

- A. An accrued receivable transaction.
- B. An accrued liability transaction.
- C. An unearned revenue transaction.
- D.** A prepaid expense transaction.

AACSB: Reflective thinking
Blooms: Synthesis
Learning Objective: 4
Level of Learning: 1

71. Recording revenue earned, but not yet collected, from a customer is an example of:

- A. A prepaid expense transaction.
- B. An unearned revenue transaction.
- C. An accrued liability transaction.
- D.** An accrued receivable transaction.

AACSB: Reflective thinking
Blooms: Synthesis
Learning Objective: 4
Level of Learning: 1

Chapter 002 Review of the Accounting Process

72. When a magazine sells subscriptions to customers, it is an example of:

- A. An accrued liability transaction.
- B. An accrued receivable transaction.
- C. A prepaid expense transaction.
- D.** An unearned revenue transaction.

AACSB: Reflective thinking

Blooms: Synthesis

Learning Objective: 4

Level of Learning: 1

73. On December 31, 2009, Coolwear, Inc. had balances in its accounts receivable and allowance for uncollectible accounts of \$48,400 and \$0, respectively. No receivables were written off during the year. At the end of 2009, Coolwear estimated that \$2,100 in receivables would not be collected. Bad debt expense for 2009 would be:

- A. \$ 0.
- B. \$46,300.
- C. \$ 1,050.
- D.** \$ 2,100.

AACSB: Analytic

Blooms: Application

Learning Objective: 4

Level of Learning: 1

74. Adjusting entries are primarily needed for:

- A. Cash basis accounting.
- B.** Accrual accounting.
- C. Current value accounting.
- D. Manual accounting systems.

AACSB: Reflective thinking

Blooms: Knowledge

Learning Objective: 4

Level of Learning: 2

Chapter 002 Review of the Accounting Process

75. Prepayments occur when:

- A.** Cash flow precedes expense recognition.
- B. Sales are delayed pending credit approval.
- C. Customers are unable to pay the full amount due when goods are delivered.
- D. Manufactured goods await quality control inspections.

AACSB: Reflective thinking
Blooms: Knowledge
Learning Objective: 4
Level of Learning: 2

76. Accruals occur when cash flows:

- A. Occur before expense recognition.
- B.** Occur after revenue or expense recognition.
- C. Are uncertain.
- D. May be substituted for goods or services.

AACSB: Reflective thinking
Blooms: Knowledge
Learning Objective: 4
Level of Learning: 2

77. On December 31, 2009, the end of Larry's Used Cars first year of operations, the accounts receivable was \$53,600. The company estimates that \$1,200 of the year-end receivables will not be collected. Accounts receivable in the 2009 balance sheet will be valued at:

- A. \$53,600.
- B. \$54,800.
- C.** \$52,400.
- D. \$ 1,200.

$$\text{Accounts receivable} = \$53,600 - 1,200 = \underline{\$52,400}$$

AACSB: Analytic
Blooms: Application
Learning Objective: 4
Level of Learning: 2

Chapter 002 Review of the Accounting Process

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

- A. \$1,600,000.
- B. \$1,800,000.**
- C. \$2,200,000.
- D. \$2,400,000.

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

Supplies purchases: $\$400,000 + 2,000,000 - 600,000 = \underline{\$1,800,000}$

AACSB: Analytic
Blooms: Application
Learning Objective: 4
Level of Learning: 3

79. Which of the following would not be an adjusting entry?

- Prepaid Rent**
 - A. **Rent expense**
- Cash**
 - B. Unearned revenue**
- Interest expense**
 - C. **Interest payable**
- Bad debt expense**
 - D. **accounts**
Allowance for uncollectible

AACSB: Reflective thinking
Blooms: Synthesis
Learning Objective: 5
Level of Learning: 2

Chapter 002 Review of the Accounting Process

80. The adjusting entry required when amounts previously recorded as unearned revenues are earned includes:

- A.** A debit to a liability.
- B. A debit to an asset.
- C. A credit to a liability.
- D. A credit to an asset.

AACSB: Reflective thinking
Blooms: Knowledge
Learning Objective: 5
Level of Learning: 2

81. Which of the following accounts has a credit balance?

- A. Salary expense.
- B.** Accrued income taxes payable.
- C. Land.
- D. Prepaid rent.

AACSB: Reflective thinking
Blooms: Knowledge
Learning Objective: 5
Level of Learning: 2

82. When a tenant makes an end-of-period adjusting entry credit to the "Prepaid rent" account:

- A. (S)he usually debits cash.
- B.** (S)he usually debits an expense account.
- C. (S)he debits a liability account.
- D. (S)he does none of these.

AACSB: Reflective thinking
Blooms: Synthesis
Learning Objective: 5
Level of Learning: 2

Chapter 002 Review of the Accounting Process

83. When an employer makes an end-of-period adjusting entry with a debit to supplies expense, the usual credit entry is made to:

- A. Accounts payable.
- B. Supplies.**
- C. Cash.
- D. Retained earnings.

AACSB: Reflective thinking
Blooms: Synthesis
Learning Objective: 5
Level of Learning: 2

84. The adjusting entry required to record accrued expenses includes:

- A. A credit to cash.
- B. A debit to an asset.
- C. A credit to an asset.
- D. A credit to liability.**

AACSB: Reflective thinking
Blooms: Knowledge
Learning Objective: 5
Level of Learning: 2

85. Carolina Mills purchased \$270,000 in supplies this year. The supplies account increased by \$10,000 during the year to an ending balance of \$66,000. What was supplies expense for Carolina Mills during the year?

- A. \$300,000.
- B. \$280,000.
- C. \$260,000.**
- D. \$240,000.

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

AACSB: Analytic
Blooms: Application
Learning Objective: 5
Level of Learning: 3

Chapter 002 Review of the Accounting Process

86. Yummy Foods purchased a two-year fire and extended coverage insurance policy on August 1, 2009, and charged the \$4,200 premium to Insurance expense. At its December 31, 2009, year-end, Yummy Foods would record which of the following adjusting entries?

A.

Insurance expense	875	
Prepaid insurance		875

B.

Prepaid insurance	875	
Insurance expense		875

C.

Insurance expense	875	
Prepaid insurance	3,325	
Insurance payable		4,200

D.

Prepaid insurance	3,325	
Insurance expense		3,325

Entry on 8/1:

Insurance expense	4,200	
Cash		4,200

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

AACSB: Analytic
Blooms: Application
Learning Objective: 5
Level of Learning: 3

Chapter 002 Review of the Accounting Process

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

- | | | | |
|-----------|-------------------------|---------------|---------------|
| | Salaries expense | 22,400 | |
| | Prepaid salaries | 9,600 | |
| A. | Salaries payable | | 32,000 |
| | Salaries expense | 6,400 | |
| B. | Salaries payable | | 6,400 |
| | Prepaid salaries | 9,600 | |
| C. | Salaries payable | | 9,600 |
| | Salaries expense | 22,400 | |
| <u>D.</u> | Salaries payable | | 22,400 |

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

AACSB: Analytic
Blooms: Application
Learning Objective: 5
Level of Learning: 3

Chapter 002 Review of the Accounting Process

88. On September 1, 2009, Fortune Magazine sold 600 one-year subscriptions for \$81 each. The total amount received was credited to unearned subscriptions revenue. What would be the required adjusting entry at December 31, 2009?

	Unearned subscriptions revenue	48,600	
	Subscriptions revenue		16,200
A.	Prepaid subscriptions		32,400
	Unearned subscriptions revenue	16,200	
<u>B.</u>	Subscriptions revenue		16,200
	Unearned subscriptions revenue	16,200	
C.	Subscriptions payable		16,200
	Unearned subscriptions revenue	32,400	
D.	Subscriptions revenue		32,400
	Entry on 9/1: Cash	48,600	
	Unearned subscriptions revenue		48,600

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

AACSB: Analytic
Blooms: Application
Learning Objective: 5
Level of Learning: 3

Chapter 002 Review of the Accounting Process

89. Mama's Pizza Shoppe borrowed \$8,000 at 9% interest on May 1, 2009, with principal and interest due on October 31, 2010. The company's fiscal year ends June 30, 2009. What adjusting entry would the company record on June 30, 2009?

A. No entry.

B.

Interest expense	240	
Interest payable		240

C.

Interest expense	120	
Interest payable		120

D.

Prepaid interest	120	
Interest payable		120

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

AACSB: Analytic
Blooms: Application
Learning Objective: 5
Level of Learning: 3

Chapter 002 Review of the Accounting Process

90. On September 15, 2009, Oliver's Mortuary received a \$6,000, nine-month note bearing interest at an annual rate of 10% from the estate of Jay Hendrix for services rendered. Oliver's has a December 31 year-end. What adjusting entry would the company record on December 31, 2009?

	Interest receivable	175	
A.	Interest revenue		175
	Interest receivable	230	
B.	Interest revenue		230
	Interest receivable	175	
C.	Notes receivable		175
	Interest receivable	600	
	Interest revenue		175
D.	Cash		425

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

AACSB: Analytic
Blooms: Application
Learning Objective: 5
Level of Learning: 3

91. In its first year of operations Acme Corp. had income before tax of \$400,000. Acme made income tax payments totaling \$150,000 during the year and has an income tax rate of 40%. What would be the balance in income tax payable at the end of the year?

- A. \$160,000 credit.
- B. \$150,000 credit.
- C. \$ 10,000 credit.**
- D. \$ 10,000 debit.

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

Income Tax Payable	
150,000	160,000
	10,000

AACSB: Analytic
Blooms: Application
Learning Objective: 5
Level of Learning: 3

Chapter 002 Review of the Accounting Process

92. Eve's Apples opened business on January 1, 2009, and paid for two insurance policies effective that date. The liability policy was \$36,000 for eighteen-months, and the crop damage policy was \$12,000 for a two-year term. What was the balance in Eve's prepaid insurance as of December 31, 2009?

- A. \$ 9,000.
- B. \$18,000.**
- C. \$30,000.
- D. \$48,000.

Prepaid liability insurance: \$36,000 x 6/18	\$12,000
Prepaid hazard insurance: \$12,000 x 12/24	<u>6,000</u>
Total prepaid insurance at 12/31/09	<u><u>\$18,000</u></u>

*AACSB: Analytic
Blooms: Application
Learning Objective: 5
Level of Learning: 3*

93. Fink Insurance collected premiums of \$18,000,000 from its customers during the current year. The adjusted balance in the Unearned premiums account increased from \$6 million to \$8 million dollars during the year. What was Fink's revenues from earned insurance premiums for the current year?

- A. \$10,000,000.
- B. \$16,000,000.**
- C. \$18,000,000.
- D. \$20,000,000.

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

*AACSB: Analytic
Blooms: Application
Learning Objective: 5
Level of Learning: 3*

Chapter 002 Review of the Accounting Process

94. On November 1, 2009, Tim's Toys borrows \$30,000,000 at 9% to finance the holiday sales season. The note is for a six-month term and both principal and interest are payable at maturity. What should be the balance of interest payable for the loan as of December 31, 2009?

- A. \$ 112,500.
- B. \$ 225,000.
- C. \$ 450,000.**
- D. \$1,350,000.

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

AACSB: Analytic
Blooms: Application
Learning Objective: 5
Level of Learning: 3

95. A future economic benefit owned or controlled by an entity is:

- A. A revenue.
- B. An asset.**
- C. A liability.
- D. A contra asset until used.

AACSB: Reflective thinking
Blooms: Knowledge
Learning Objective: 6
Level of Learning: 1

96. Cost of goods sold is:

- A. An asset account.
- B. A revenue account.
- C. An expense account.**
- D. A permanent equity account.

AACSB: Reflective thinking
Blooms: Knowledge
Learning Objective: 6
Level of Learning: 1

Chapter 002 Review of the Accounting Process

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

- A. Plus revenues minus liabilities.
- B. Plus accruals minus deferrals.
- C. Plus net income minus dividends.**
- D. Plus assets minus liabilities.

AACSB: Reflective thinking

Blooms: Knowledge

Learning Objective: 6

Level of Learning: 2

98. In its first year of operations Best Corp. had income before tax of \$500,000. Best made income tax payments totaling \$210,000 during the year and has an income tax rate of 40%. What was Best's net income for the year?

- A. \$290,000.
- B. \$294,000.
- C. \$300,000.**
- D. \$306,000.

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

AACSB: Analytic

Blooms: Application

Learning Objective: 6

Level of Learning: 3

Chapter 002 Review of the Accounting Process

99. Dave's Duds reported cost of goods sold of \$2,000,000 this year. The inventory account increased by \$200,000 during the year to an ending balance of \$400,000. What was the cost of merchandise that Dave purchased during the year?

- A. \$1,600,000.
- B. \$1,800,000.
- C. \$2,200,000.**
- D. \$2,400,000.

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

AACSB: Analytic
Blooms: Application
Learning Objective: 6
Level of Learning: 3

100. Permanent accounts would not include:

- A. Interest expense.**
- B. Wages payable.
- C. Prepaid rent.
- D. Unearned revenues.

AACSB: Reflective thinking
Blooms: Knowledge
Learning Objective: 7
Level of Learning: 2

101. Permanent accounts would not include:

- A. Cost of goods sold.**
- B. Inventory.
- C. Current liabilities.
- D. Accumulated depreciation.

AACSB: Reflective thinking
Blooms: Knowledge
Learning Objective: 7
Level of Learning: 2

Chapter 002 Review of the Accounting Process

102. The purpose of closing entries is to transfer:

- A. Accounts receivable to retained earnings when an account is fully paid.
- B.** Balances in temporary accounts to a permanent account.
- C. Inventory to cost of goods sold when merchandise is sold.
- D. Assets and liabilities when operations are discontinued.

AACSB: Reflective thinking
Blooms: Synthesis
Learning Objective: 7
Level of Learning: 2

103. Temporary accounts would not include:

- A.** Salaries payable.
- B. Depreciation expense.
- C. Supplies expense.
- D. Cost of goods sold.

AACSB: Reflective thinking
Blooms: Knowledge
Learning Objective: 7
Level of Learning: 2

104. When converting an income statement from a cash basis to an accrual basis, expenses:

- A. Exceed cash payments to suppliers.
- B. Equal cash payments to suppliers.
- C. Are less than cash payments to suppliers.
- D.** May exceed or be less than cash payments to suppliers.

AACSB: Analytic
Blooms: Analysis
Learning Objective: 8
Level of Learning: 2

Chapter 002 Review of the Accounting Process

105. When the amount of revenue collected in advance decreases during an accounting period:

- A.** Accrual-basis revenues exceed cash collections from customers.
- B. Accrual-basis net income exceeds cash-basis net income.
- C. Accrual-basis revenues are less than cash collections from customers.
- D. Accrual-basis net income is less than cash-basis net income.

AACSB: Analytic
Blooms: Analysis
Learning Objective: 8
Level of Learning: 2

106. When converting an income statement from a cash basis to an accrual basis, which of the following is incorrect?

- A. An adjustment for depreciation reduces the net income.
- B.** An adjustment for bad debts increases the net income.
- C. A reduction in prepaid expenses decreases net income.
- D. An increase in accrued payables decreases net income.

AACSB: Analytic
Blooms: Comprehension
Learning Objective: 8
Level of Learning: 2

Chapter 002 Review of the Accounting Process

107. Molly's Auto Detailers maintains its records on the cash basis. During 2009, Molly's collected \$72,000 from customers and paid \$21,000 in expenses. Depreciation expense of \$5,000 would have been recorded on the accrual basis. Over the course of the year, accounts receivable increased \$4,000, prepaid expenses decreased \$2,000, and accrued liabilities decreased \$1,000. Molly's accrual basis net income would be:

- A. \$38,000.
- B. \$54,000.
- C. \$49,000.**
- D. \$42,000.

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

AACSB: Analytic
Blooms: Application
Learning Objective: 8
Level of Learning: 3

Chapter 002 Review of the Accounting Process

108. Pat's Custom Tuxedo Shop maintains its records on the cash basis. During this past year Pat's collected \$42,000 in tailoring fees, and paid \$14,000 in expenses. Depreciation expense totaled \$2,000. Accounts receivable increased \$1,500, supplies increased \$4,000, and accrued liabilities increased \$2,500. Pat's accrual basis net income would be:

- A. \$18,000.
- B. \$34,000.
- C. \$23,000.
- D.** \$29,000.

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

*AACSB: Analytic
Blooms: Application
Learning Objective: 8
Level of Learning: 3*

109. The Hamada Company sales for 2009 totaled \$150,000 and purchases totaled \$95,000. Selected January 1, 2009, balances were: accounts receivable, \$18,000; inventory, \$14,000; and accounts payable, \$12,000. December 31, 2009, balances were: accounts receivable, \$16,000; inventory, \$15,000; and accounts payable, \$13,000. Net cash flows from these activities were:

- A. \$45,000.
- B. \$55,000.
- C.** \$58,000.
- D. \$74,000.

Sales	\$150,000	Purchases	\$95,000
Add decrease in A/R	<u>2,000</u>	Deduct increase in A/P	<u>(1,000)</u>
Cash collections	\$152,000	Cash disbursements	\$94,000
Net cash flows = \$152,000 - \$94,000 = <u>\$58,000</u>			

*AACSB: Analytic
Blooms: Application
Learning Objective: 8
Level of Learning: 3*

Chapter 002 Review of the Accounting Process

110. When the amount of interest receivable decreases during an accounting period:

- A. Accrual-basis interest revenues exceed cash collections from borrowers.
- B. Accrual-basis net income exceeds cash-basis net income.
- C.** Accrual-basis interest revenues are less than cash collections from borrowers.
- D. Accrual-basis net income is less than cash-basis net income.

AACSB: Analytic
Blooms: Comprehension
Learning Objective: 8
Level of Learning: 3

111. When converting an income statement from a cash basis to an accrual basis, cash received for services:

- A. Exceed service revenue.
- B.** May exceed or be less than service revenue.
- C. Is less than service revenue.
- D. Equals service revenue.

AACSB: Analytic
Blooms: Comprehension
Learning Objective: 8
Level of Learning: 3

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

<u>Accounts Receivable</u>	<u>Accrued Liabilities</u>
A. Yes	No
B. No	Yes
C. Yes	Yes
D. No	No

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

AACSB: Analytic
Blooms: Analysis
Learning Objective: 8
Level of Learning: 3

Chapter 002 Review of the Accounting Process

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

	Cash Basis	Accrual Basis
A.	\$3,400,000	\$3,400,000
B.	\$5,400,000	\$2,400,000
C.	\$6,400,000	\$3,400,000
D.	\$6,400,000	\$2,400,000

Cash basis income: Cash collected in July	\$6,400,000
Accrual basis income:	
Revenue recognized in June	\$6,400,000
Less: Expenses recognized in June	<u>(3,000,000)</u>
Income	\$3,400,000

AACSB: Analytic
Blooms: Application
Learning Objective: 8
Level of Learning: 3

Chapter 002 Review of the Accounting Process

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

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

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

- A. \$218,750
- B. \$166,250
- C. \$210,000
- D.** \$227,500

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

AACSB: Analytic
Blooms: Application
Learning Objective: 8
Level of Learning: 3

Chapter 002 Review of the Accounting Process

Essay Questions

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

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

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

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

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

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

115. Buildings and equipment (B&E)

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

AACSB: Analytic
Blooms: Analysis
Learning Objective: 2
Level of Learning: 2

Chapter 002 Review of the Accounting Process

116. Short-term notes payable

	Effect	Classification
Short-term notes payable	2	3

AACSB: Analytic
Blooms: Analysis
Learning Objective: 2
Level of Learning: 2

117. Cost of goods sold

	Effect	Classification
Cost of goods sold	1	7

AACSB: Analytic
Blooms: Analysis
Learning Objective: 2
Level of Learning: 2

118. Accounts receivable

	Effect	Classification
Accounts receivable	1	1

AACSB: Analytic
Blooms: Analysis
Learning Objective: 2
Level of Learning: 2

119. Inventory

	Effect	Classification
Inventory	1	1

AACSB: Analytic
Blooms: Analysis
Learning Objective: 2
Level of Learning: 2

Chapter 002 Review of the Accounting Process

120. Unearned revenues

	Effect	Classification
Unearned revenues	2	3

AACSB: Analytic
Blooms: Analysis
Learning Objective: 2
Level of Learning: 2

121. Property taxes payable

	Effect	Classification
Property taxes payable	2	3

AACSB: Analytic
Blooms: Analysis
Learning Objective: 2
Level of Learning: 2

122. Retained earnings

	Effect	Classification
Retained earnings	2	5

AACSB: Analytic
Blooms: Analysis
Learning Objective: 2
Level of Learning: 2

123. Interest revenue

	Effect	Classification
Interest revenue	2	6

AACSB: Analytic
Blooms: Analysis
Learning Objective: 2
Level of Learning: 2

Chapter 002 Review of the Accounting Process

124. Supplies expense

	Effect	Classification
Supplies expense	1	7

AACSB: Analytic
Blooms: Analysis
Learning Objective: 2
Level of Learning: 2

125. Allowance for uncollectible accounts

	Effect	Classification
Allowance for uncollectible accounts	2	1

AACSB: Analytic
Blooms: Analysis
Learning Objective: 2
Level of Learning: 2

126. Capital stock

	Effect	Classification
Capital stock	2	5

AACSB: Analytic
Blooms: Analysis
Learning Objective: 2
Level of Learning: 2

Chapter 002 Review of the Accounting Process

1111	Cash	2152	Property taxes payable
1121	Short-term investments	2161	Rent payable
1131	Notes receivable	2211	Long-term notes payable
1132	Accounts receivable	3121	Capital stock
1133	Allowance for uncollectible accounts	3211	Retained earnings
1136	Interest receivable	5211	Sales revenue
1137	Other accrued receivables	5311	Interest revenue
1141	Inventory	6111	Cost of goods sold
1151	Supplies	6201	Advertising expense
1152	Prepaid expenses	6205	Bad debt expense
1321	Buildings and equipment (B&E)	6208	Depreciation expense
1322	Accumulated depreciation-B&E	6215	Insurance expense
2111	Short-term notes payable	6223	Property tax expense
2113	Interest payable	6224	Rent expense
2121	Accounts payable	6226	Supplies expense
2131	Unearned revenues	6230	Wages and salaries expense
2141	Salaries & wages payable	6411	Interest expense
2145	Dividends payable	6999	Income summary account

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

TRANSACTION	Account(s) debited	Account(s) credited	Transaction type
EXAMPLE: Sold \$110,000,000 in capital stock for cash.	1111	3121	1

Chapter 002 Review of the Accounting Process

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

TRANSACTION	Account(s) debited	Account(s) credited	Transaction type
Purchased building and equipment for \$10,000,000, paying 20% cash and issuing a 30-year note for the balance.	1321	1111, 2211	1

AACSB: Analytic
Blooms: Application
Learning Objective: 2
Level of Learning: 3

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

TRANSACTION	Account(s) debited	Account(s) credited	Transaction type
Invested idle cash in short-term money market funds.	1121	1111	1

AACSB: Analytic
Blooms: Application
Learning Objective: 2
Level of Learning: 3

129. Purchased inventory on account.

TRANSACTION	Account(s) debited	Account(s) credited	Transaction type
Purchased inventory on account.	1141	2121	1

AACSB: Analytic
Blooms: Application
Learning Objective: 2
Level of Learning: 3

Chapter 002 Review of the Accounting Process

130. Sold inventory on account.

TRANSACTION	Account(s) debited	Account(s) credited	Transaction type
Sold inventory on account	1132, 6111	5211, 1141	1

*AACSB: Analytic
Blooms: Application
Learning Objective: 2
Level of Learning: 3*

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

TRANSACTION	Account(s) debited	Account(s) credited	Transaction type
Sold merchandise to a customer in exchange for a promissory note.	1131, 6111	5211, 1141	1

*AACSB: Analytic
Blooms: Application
Learning Objective: 2
Level of Learning: 3*

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

TRANSACTION	Account(s) debited	Account(s) credited	Transaction type
Accrued the interest earned but not collected on notes receivable.	1136	5311	2

*AACSB: Analytic
Blooms: Application
Learning Objective: 5
Level of Learning: 3*

Chapter 002 Review of the Accounting Process

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

TRANSACTION	Account(s) debited	Account(s) credited	Transaction type
Collected a note receivable at maturity, including the interest that had already been accrued	1111	1131, 1136	1

*AACSB: Analytic
Blooms: Application
Learning Objective: 2
Level of Learning: 3*

134. Collected cash on account from customers.

TRANSACTION	Account(s) debited	Account(s) credited	Transaction type
Collected cash on account from customers.	1111	1132	1

*AACSB: Analytic
Blooms: Application
Learning Objective: 2
Level of Learning: 3*

135. Sold inventory for cash.

TRANSACTION	Account(s) debited	Account(s) credited	Transaction type
Sold inventory for cash.	1111, 6111	5211, 1141	1

*AACSB: Analytic
Blooms: Application
Learning Objective: 2
Level of Learning: 3*

Chapter 002 Review of the Accounting Process

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

TRANSACTION	Account(s) debited	Account(s) credited	Transaction type
Received payment for services to be performed next year.	1111	2131	1

AACSB: Analytic
Blooms: Application
Learning Objective: 2
Level of Learning: 3

137. Wages have been earned but are unpaid at the end of an accounting period.

TRANSACTION	Account(s) debited	Account(s) credited	Transaction type
Accrued wages due but unpaid at the end of an accounting period.	6230	2141	2

AACSB: Analytic
Blooms: Application
Learning Objective: 5
Level of Learning: 3

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

TRANSACTION	Account(s) debited	Account(s) credited	Transaction type
Closed the income summary account, assuming there was a net income for the period.	6999	3211	3

AACSB: Analytic
Blooms: Application
Learning Objective: 7
Level of Learning: 3

Chapter 002 Review of the Accounting Process

139. Paid property taxes that have already been accrued.

TRANSACTION	Account(s) debited	Account(s) credited	Transaction type
Paid property taxes that have already been accrued.	2152	1111	1

AACSB: Analytic
Blooms: Application
Learning Objective: 2
Level of Learning: 3

140. Declared cash dividends on common stock.

TRANSACTION	Account(s) debited	Account(s) credited	Transaction type
Declared cash dividends on common stock.	3211	2145	1

AACSB: Analytic
Blooms: Application
Learning Objective: 2
Level of Learning: 3

141. Paid rent for the next three months.

TRANSACTION	Account(s) debited	Account(s) credited	Transaction type
Paid rent for the next three months.	1152	1111	1

AACSB: Analytic
Blooms: Application
Learning Objective: 2
Level of Learning: 3

Chapter 002 Review of the Accounting Process

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

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

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

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

AACSB: Analytic
Blooms: Application
Learning Objective: 2
Level of Learning: 3

Chapter 002 Review of the Accounting Process

143. Prepare journal entries to record the following transactions of Daisy King Ice Cream Company. If an entry is not required, state "No Entry."

1. Started business by issuing 10,000 shares of capital stock for \$20,000.
2. Signed a franchise agreement to pay royalties of 5% of sales.
3. Leased a building for three years at \$500 per month and paid six months' rent in advance.
4. Purchased equipment for \$5,400, paying \$1,000 down and signing a two-year, 10% note for the balance.
5. Purchased \$1,800 of supplies on account.
6. Recorded cash sales of \$800 for the first week.
7. Paid weekly wages, \$320.
8. Paid for supplies purchased in item (e).
9. Paid royalties due on first week's sales.
10. Recorded depreciation on equipment, \$50.

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

AACSB: Analytic
 Blooms: Application
 Learning Objective: 2
 Level of Learning: 3

Chapter 002 Review of the Accounting Process

144. Flint Hills, Inc. has prepared a year-end 2009 trial balance. Certain accounts in the trial balance do not reflect all activities that have occurred.

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

1. The Supplies account shows a balance of \$540, but a count of supplies reveals only \$210 on hand.
2. Flint Hills initially records the payments of all insurance premiums as expenses. The trial balance shows a balance of \$420 in Insurance expense. A review of insurance policies reveals that \$125 of insurance is unexpired.
3. Flint Hills' employees work Monday through Friday, and salaries of \$2,400 per week are paid each Friday. Flint Hills' year-end falls on Tuesday.
4. On December 31, 2009, Flint Hills received a utility bill for December electricity usage of \$190 that will be paid in early January.

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

AACSB: Analytic
Blooms: Application
Learning Objective: 5
Level of Learning: 3

Chapter 002 Review of the Accounting Process

145. The following is selected financial information for Osmond Dental Laboratories for 2008 and 2009:

	<u>2008</u>	<u>2009</u>
Retained earnings, January 1	\$53,000	?
Net income	37,000	42,000
Dividends declared and paid	15,000	18,000
Capital stock	70,000	?

Osmond issued 2,000 shares of additional capital stock in 2009 for \$20,000. There were no other capital transactions.

Required: Prepare a statement of shareholders' equity for Osmond Dental Laboratories for the year ended December 31, 2009.

Osmond Dental Laboratories Statement of Shareholders' Equity For the Year Ended December 31, 2009

	<u>Capital Stock</u>	<u>Retained Earnings</u>	<u>Total Shareholders' Equity</u>
Balance, January 1, 2009	\$70,000	\$75,000*	\$145,000
Issue of capital stock	20,000		20,000
Net income for 2009		42,000	42,000
Less: Dividends		<u>- 18,000</u>	<u>- 18,000</u>
Balance, December 31, 2009	<u>\$ 90,000</u>	<u>\$ 99,000</u>	<u>\$189,000</u>

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

*AACSB: Analytic
Blooms: Application
Learning Objective: 6
Level of Learning: 3*

Chapter 002 Review of the Accounting Process

146. The Yankel Corporation's controller prepares adjusting entries only at the end of the fiscal year. The following adjusting entries were prepared on December 31, 2009:

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

Additional information:

1. The company borrowed \$30,000 on June 30, 2009. Principal and interest are due on June 30, 2010. This note is the company's only interest-bearing debt.
2. Insurance for the year on the company's office buildings is \$90,000. The insurance is paid in advance.
3. On August 31, 2009, Yankel lent money to a customer. The customer signed a note with principal and interest at 9% due in one year.

Required:

Determine the following:

1. What is the interest rate on the company's note payable?
2. The 2009 insurance payment was made at the beginning of which month?
3. How much did Yankel lend its customer on August 31?

Chapter 002 Review of the Accounting Process

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

Or,

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

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

2. $\$90,000 \div 12$ months = \$7,500 per month in insurance
 $\$60,000 \div \$7,500 = 8$ months expired. The insurance was paid on **May 1**, eight months ago.

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

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

Principal $\times 9\% = \$9,000$

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

AACSB: Analytic
Blooms: Comprehension
Learning Objective: 4
Learning Objective: 5
Level of Learning: 3

Chapter 002 Review of the Accounting Process

Suppose that Laramie Company's adjusted trial balance ignored the following information. For each item of information, indicate what effects, if any, these omissions would have on the stated components of Laramie Company's 2009 Income Statement and 12/31/09 Balance Sheet. Assume no income taxes.

Use the following code for your answers and be sure to include the dollar amounts of the effects:

- 0 = No Effect
- + = Overstated
- = Understated

147.

Additional Information	12/31/09 Assets	12/31/09 Liabilities	12/31/09 Owners' Equity	2009 Net Income
\$2,000 interest on a loan was not yet paid or recorded				

Additional Information	12/31/09 Assets	12/31/09 Liabilities	12/31/09 Owners' Equity	2009 Net Income
\$2,000 interest on a loan was not yet paid or recorded	0	- 2,000	+ 2,000	+2,000

AACSB: Analytic
Blooms: Analysis
Learning Objective: 5
Level of Learning: 2

Chapter 002 Review of the Accounting Process

148.

Additional Information	12/31/09 Assets	12/31/09 Liabilities	12/31/09 Owners' Equity	2009 Net Income
The estimated uncollectible accounts receivable is now zero and should be \$25,000.				

Additional Information	12/31/09 Assets	12/31/09 Liabilities	12/31/09 Owners' Equity	2009 Net Income
The total estimated uncollectible accounts receivable is now zero and should be \$25,000.	+25,000	0	+25,000	+25,000

AACSB: Analytic
 Blooms: Analysis
 Learning Objective: 5
 Level of Learning: 2

149.

Additional Information	12/31/09 Assets	12/31/09 Liabilities	12/31/09 Owners' Equity	2009 Net Income
\$10,000 of the paid and recorded rent expense pertains to the year 2010.				

Additional Information	12/31/09 Assets	12/31/09 Liabilities	12/31/09 Owners' Equity	2009 Net Income
\$10,000 of the paid and recorded rent expense pertains to the year 2010.	-10,000	0	-10,000	-10,000

AACSB: Analytic
 Blooms: Analysis
 Learning Objective: 5
 Level of Learning: 2

Chapter 002 Review of the Accounting Process

150.

Additional Information	12/31/09 Assets	12/31/09 Liabilities	12/31/09 Owners' Equity	2009 Net Income
\$20,000 in depreciation on some equipment was still unrecorded.				

Additional Information	12/31/09 Assets	12/31/09 Liabilities	12/31/09 Owners' Equity	2009 Net Income
\$20,000 in depreciation on some equipment was still unrecorded.	+20,000	0	+20,000	+20,000

AACSB: Analytic
Blooms: Analysis
Learning Objective: 5
Level of Learning: 2

151.

Additional Information	12/31/09 Assets	12/31/09 Liabilities	12/31/09 Owners' Equity	2009 Net Income
\$4,000 in cash dividends declared and paid in December 2009 were unrecorded.				

Additional Information	12/31/09 Assets	12/31/09 Liabilities	12/31/09 Owners' Equity	2009 Net Income
\$4,000 in cash dividends declared and paid in December 2009 were unrecorded.	+4,000	0	+4,000	0

AACSB: Analytic
Blooms: Analysis
Learning Objective: 5
Level of Learning: 2

Chapter 002 Review of the Accounting Process

You are reviewing O'Brian Co.'s adjusted trial balance for the year ended 12/31/09. You notice several omissions and incorrect items during your review, some of which are noted below. For each one, you are to determine what effect, if any, these items would have on the stated components of O'Brian Co.'s 2009 Income Statement and 12/31/09 Balance Sheet if they are not corrected or updated. Assume, no income taxes.

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

N = No Effect

O = Overstated

U = Understated

152.

Additional Information	12/31/09 Assets	12/31/09 Liabilities	12/31/09 Owners' Equity	2009 Net Income
Estimated uncollectible accounts of \$7,000 are estimated at the end of the year and recorded as a debit to Bad Debts Expense and a credit to Accounts Receivable. The entry has not been made.				

Additional Information	12/31/09 Assets	12/31/09 Liabilities	12/31/09 Owners' Equity	2009 Net Income
Estimated uncollectible accounts of \$7,000 are estimated at the end of the year and recorded as a debit to Bad Debts Expense and a credit to Accounts Receivable. The entry has not been made.	O	N	O	O

AACSB: Analytic
 Blooms: Analysis
 Learning Objective: 5
 Level of Learning: 2

Chapter 002 Review of the Accounting Process

153.

Additional Information	12/31/09 Assets	12/31/09 Liabilities	12/31/09 Owners' Equity	2009 Net Income
The journal entry for depreciation on equipment for 2009 was recorded for \$48,000. It should have been \$66,000.				

Additional Information	12/31/09 Assets	12/31/09 Liabilities	12/31/09 Owners' Equity	2009 Net Income
The journal entry for depreciation on equipment for 2009 was recorded for \$48,000. It should have been \$66,000.	O	N	O	O

AACSB: Analytic
Blooms: Analysis
Learning Objective: 5
Level of Learning: 2

154.

Additional Information	12/31/09 Assets	12/31/09 Liabilities	12/31/09 Owners' Equity	2009 Net Income
Cash dividends declared and paid in December 2009 were unrecorded.				

Additional Information	12/31/09 Assets	12/31/09 Liabilities	12/31/09 Owners' Equity	2009 Net Income
Cash dividends declared and paid in December 2009 were unrecorded.	O	N	O	N

AACSB: Analytic
Blooms: Analysis
Learning Objective: 5
Level of Learning: 2

Chapter 002 Review of the Accounting Process

155.

Additional Information	12/31/09 Assets	12/31/09 Liabilities	12/31/09 Owners' Equity	2009 Net Income
\$10,000 of the rent revenue collected and recorded as earned this year pertains to 2010.				

Additional Information	12/31/09 Assets	12/31/09 Liabilities	12/31/09 Owners' Equity	2009 Net Income
\$10,000 of the rent revenue collected and recorded as earned this year pertains to 2010.	N	U	O	O

AACSB: Analytic
Blooms: Analysis
Learning Objective: 5
Level of Learning: 2

156.

Additional Information	12/31/09 Assets	12/31/09 Liabilities	12/31/09 Owners' Equity	2009 Net Income
Interest earned during the year on a note receivable was not yet collected or recorded				

Additional Information	12/31/09 Assets	12/31/09 Liabilities	12/31/09 Owners' Equity	2009 Net Income
Interest earned during the year on a note receivable was not yet collected or recorded	U	N	U	U

AACSB: Analytic
Blooms: Analysis
Learning Objective: 5
Level of Learning: 2

Chapter 002 Review of the Accounting Process

157.

Additional Information	12/31/09 Assets	12/31/09 Liabilities	12/31/09 Owners' Equity	2009 Net Income
Supplies purchased during the year for \$1,000 cash were recorded by a debit to Supplies Expense and a credit to Cash. Only \$200 of supplies remain at the end of the year, but no further entries have been made.				

Additional Information	12/31/09 Assets	12/31/09 Liabilities	12/31/09 Owners' Equity	2009 Net Income
Supplies purchased during the year for \$1,000 cash were recorded by a debit to Supplies Expense and a credit to Cash. Only \$200 of supplies remain at the end of the year, but no further entries have been made.	U	N	U	U

AACSB: Analytic
 Blooms: Analysis
 Learning Objective: 5
 Level of Learning: 2

Chapter 002 Review of the Accounting Process

The adjusted trial balance for China Tea Company at December 31, 2009 is presented below:

	<u>Debit</u>	<u>Credit</u>
Cash	10,500	
Accounts receivable	150,000	
Allowance for uncollectible accounts		10,000
Prepaid rent	5,000	
Inventory	25,000	
Equipment	300,000	
Accumulated depreciation - equipment		125,000
Accounts payable		20,000
Notes payable - due in three months		30,000
Salaries payable		4,000
Interest payable		1,000
Capital stock		200,000
Retained earnings		50,000
Sales revenue		400,000
Costs of goods sold	180,000	
Salaries expense	120,000	
Rent expense	15,000	
Depreciation expense	30,000	
Interest expense	2,000	
Bad debt expense	<u>2,500</u>	
Totals	<u>840,000</u>	<u>840,000</u>

Chapter 002 Review of the Accounting Process

158. Prepare the closing entries for China Tea Company for the year ended December 31, 2009.

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

AACSB: Analytic
Blooms: Application
Learning Objective: 7
Level of Learning: 3

159. Prepare an income statement for China Tea Company for the year ended December 31, 2009.

China Tea Company		
Income Statement		
For the Year Ended December 31, 2009		
Sales revenue		\$400,000
Cost of goods sold		<u>180,000</u>
Gross profit		220,000
Other expenses:		
Salaries expense	\$120,000	
Rent expense	15,000	
Depreciation expense	30,000	
Interest expense	2,000	
Bad debt expense	<u>2,500</u>	
Total other expenses		<u>169,500</u>
Net income		<u>\$ 50,500</u>

AACSB: Analytic
Blooms: Application
Learning Objective: 6
Level of Learning: 3

Chapter 002 Review of the Accounting Process

160. Prepare a classified balance sheet for China Tea Company as of December 31, 2009.

China Tea Company Balance Sheet At December 31, 2009

Assets

Current assets:

Cash		\$ 10,500
Accounts receivable	\$150,000	
Less: allowance for uncollectible accounts	<u>10,000</u>	140,000
Inventory		25,000
Prepaid rent		<u>5,000</u>
Total current assets		180,500

Property and equipment:

Equipment	300,000	
Less: Accumulated depreciation	<u>125,000</u>	<u>175,000</u>
Total assets		<u>\$355,500</u>

Liabilities and Shareholders' Equity

Current liabilities:

Accounts payable		\$ 20,000
Notes payable		30,000
Salaries payable		4,000
Interest payable		<u>1,000</u>
Total current liabilities		55,000

Shareholders' equity:

Capital stock	\$200,000	
Retained earnings	<u>100,500</u>	
Total shareholders' equity		<u>300,500</u>
Total liabilities and shareholders' equity		<u>\$355,500</u>

AACSB: Analytic
Blooms: Application
Learning Objective: 6
Level of Learning: 3

Chapter 002 Review of the Accounting Process

The following information, based on the 12/31/09 Annual Report to Shareholders of Krafty Foods (\$ in millions),

Accounts payable	1,897
Accounts receivables (net)	3,131
Accrued liabilities and taxes	4,105
Cash and cash equivalents	162
Cost of sales	17,531
Current payables to parent and affiliates	1,652
Current portion of long-term debt	540
Deferred income taxes and other liabilities	10,311
Earnings retained in the business as of 12/31/09	2,391
Goodwill and other intangible assets (net)	35,957
Income tax expense	1,565
Interest and other debt expense, net	1,437
Inventories	3,026
Long-term debt	8,134
Long-term notes payable to parent and affiliates	5,000
Marketing, general and administration expenses	11,460
Operating revenues	33,875
Other current assets	687
Other noncurrent assets	3,726
Other stockholders' equity	(2,568)
Paid-in capital for common and preferred stock	23,655
Property, plant and equipment (net)	9,109
Short-term borrowings	681

Chapter 002 Review of the Accounting Process

161. Based on the information presented above, prepare the 2009 Income Statement for Krafty Foods.

Krafty Foods	
Income Statement	
For the Year Ended December 31, 2009	
(\$ in millions)	
Operating revenues	\$33,875
Cost of sales	<u>17,531</u>
Gross profit	16,344
Marketing, general and administration expenses	<u>11,460</u>
Operating income	4,884
Interest and other debt expense, net	<u>1,437</u>
Income before taxes	3,447
Income tax expense	<u>1,565</u>
Net income	<u>\$ 1,882</u>

AACSB: Analytic
Blooms: Application
Learning Objective: 6
Level of Learning: 3

Chapter 002 Review of the Accounting Process

162. Based on the information presented above, prepare the 12/31/09 Balance Sheet for Krafty Foods.

Krafty Foods Balance Sheet At December 31, 2009

(\$ in millions)

Assets

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

Liabilities and Shareholders' Equity

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

AACSB: Analytic
Blooms: Application
Learning Objective: 6
Level of Learning: 3

Chapter 002 Review of the Accounting Process

The December 31, 2009 (pre-closing) adjusted trial balance for Kline Enterprises was as follows:

<u>Account Title</u>	<u>Debits</u>	<u>Credits</u>
Accounts payable		80,000
Accounts receivable	170,000	
Accumulated depreciation – equipment		260,000
Allowance for uncollectible accounts		10,000
Capital stock		490,000
Cash	26,000	
Cost of goods sold	480,000	
Depreciation expense	60,000	
Equipment	700,000	
Interest expense	4,000	
Inventory	150,000	
Note payable (due in six months)		60,000
Rent expense	30,000	
Retained earnings		62,000
Salaries payable		8,000
Sales revenue		<u>770,000</u>
Salaries expense	<u>120,000</u>	
TOTALS	<u>1,740,000</u>	<u>1,740,000</u>

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

163. Kline's 2009 net income (or loss):

Kline's 2009 net income (or loss) = \$76,000

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

*AACSB: Analytic
Blooms: Comprehension
Learning Objective: 6
Level of Learning: 3*

Chapter 002 Review of the Accounting Process

164. Kline's 12/31/09 total current assets:

Kline's 12/31/09 total current assets = \$336,000
Computation: 26,000 + 170,000 - 10,000 + 150,000

AACSB: Analytic
Blooms: Comprehension
Learning Objective: 6
Level of Learning: 3

165. Kline's 12/31/09 total current liabilities:

Kline's 12/31/09 total current liabilities = \$148,000

AACSB: Analytic
Blooms: Comprehension
Learning Objective: 6
Level of Learning: 3

166. Kline's 12/31/09 total shareholders' equity:

Kline's 12/31/09 total owners' equity = \$628,000

AACSB: Analytic
Blooms: Comprehension
Learning Objective: 6
Level of Learning: 3

Chapter 002 Review of the Accounting Process

167. Presented below is income statement information of the Nebraska Corporation for the year ended December 31, 2009.

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

Required:

Prepare the necessary closing entries at December 31, 2009.

December 31, 2009

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

*AACSB: Analytic
 Blooms: Application
 Learning Objective: 7
 Level of Learning: 3*

Chapter 002 Review of the Accounting Process

168. Raintree Corporation maintains its records on a cash basis. At the end of each year the company's accountant obtains the necessary information to prepare accrual basis financial statements. The following cash flows occurred during the year ended December 31, 2009:

Cash receipts:	
From customers	\$450,000
Interest on note	3,000
Issue of common stock	<u>50,000</u>
Total cash receipts	<u>\$503,000</u>
Cash disbursements:	
Purchase of merchandise	\$220,000
Annual insurance payment	9,000
Payment of salaries	180,000
Dividends paid to shareholders	6,000
Annual rent payment	<u>12,000</u>
Total cash disbursements	<u>\$427,000</u>

Selected balance sheet information:

	12/31/08	12/31/09
Cash	\$25,000	\$101,000
Accounts receivable	42,000	70,000
Inventory	60,000	82,000
Prepaid insurance	2,000	?
Prepaid rent	7,000	?
Interest receivable	1,500	?
Note receivable	50,000	50,000
Equipment	150,000	150,000
Accumulated depreciation—equipment	(40,000)	(55,000)
Accounts payable (for merchandise)	50,000	62,000
Salaries payable	20,000	28,000
Common stock	200,000	250,000

Additional information:

1. On June 30, 2008, Raintree lent a customer \$50,000. Interest at 6% is payable annually on each June 30. Principal is due in 2012.
2. The annual insurance payment is made in advance on March 31.
3. Annual rent on the company's facilities is paid in advance on September 30.

Required:

1. Prepare an accrual basis income statement for 2009 (ignore income taxes).
2. Determine the following balance sheet amounts on December 31, 2009:
 - a. Interest receivable
 - b. Prepaid insurance

Chapter 002 Review of the Accounting Process

c. Prepaid rent

Chapter 002 Review of the Accounting Process

1. Sales revenue:	
Cash collected from customers	\$450,000
Add: Increase in accounts receivable	<u>28,000</u>
Sales revenue	<u>\$478,000</u>
Interest revenue:	
Cash received	\$3,000
Add: Amount accrued at the end of 2009 ($\$50,000 \times .06 \times 6/12$)	1,500 (a)
Deduct: Amount accrued at the end of 2008	<u>(1,500)</u>
Interest revenue	<u>\$3,000</u>
Cost of goods sold:	
Cash paid for merchandise	\$220,000
Add: Increase in accounts payable	<u>12,000</u>
Purchases during 2009	232,000
Deduct: Increase in inventory	<u>(22,000)</u>
Cost of goods sold	<u>\$210,000</u>
Insurance expense:	
Cash paid	\$9,000
Add: Prepaid insurance expired during 2008	2,000
Deduct: Prepaid insurance on 12/31/09 ($\$9,000 \times 3/12$)	<u>(2,250) (b)</u>
Insurance expense	<u>\$8,750</u>
Salaries expense:	
Cash paid	\$180,000
Add: Increase in salaries payable	<u>8,000</u>
Salaries expense	<u>\$188,000</u>
Rent expense:	
Amount paid	\$12,000
Add: Prepaid rent on 12/31/08 expired during 2009	7,000
Deduct: Prepaid rent on 12/31/09 ($\$12,000 \times 9/12$)	<u>(9,000) (c)</u>
Rent expense	<u>\$10,000</u>
Depreciation expense: Increase in accumulated depreciation	
	<u>\$15,000</u>

Chapter 002 Review of the Accounting Process

Raintree Corporation
Income statement
For the Year Ended December 31, 2009

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

- 2.
- a. Interest receivable \$ 1,500
 - b. Prepaid insurance 2,250
 - c. Prepaid rent 9,000

AACSB: Analytic
Blooms: Application
Learning Objective: 8
Level of Learning: 3

Chapter 002 Review of the Accounting Process

169. Silicon Chip Company's fiscal year-end is December 31. At the end of 2009, it owed employees \$22,000 in wages that will be paid on January 7, 2010.

Required:

1. Prepare an adjusting entry to record accrued salaries, a reversing entry on January 1, 2010, and an entry to record the payment of wages on January 7, 2010.
2. Prepare journal entries to record the accrued salaries on December 31 and the payment of salaries on January 7 assuming a reversing entry is not made.

1.

December 31 - adjusting entry

Salaries expense	22,000	
Salaries payable		22,000

January 1 - reversing entry

Salaries payable	22,000	
Salaries expense		22,000

January 7 - payment of salaries

Salaries expense	22,000	
Cash		22,000

2.

December 31 - adjusting entry

Salaries expense	22,000	
Salaries payable		22,000

January 7 - payment of salaries

Salaries payable	22,000	
Cash		22,000

*AACSB: Analytic
 Blooms: Application
 Learning Objective: Appendix B
 Level of Learning: 3*

Chapter 002 Review of the Accounting Process

170. Describe the difference between external events and internal events and give two examples of each.

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

AACSB: Reflective thinking
Blooms: Comprehension
Learning Objective: 1
Level of Learning: 3

171. Describe what is meant by unearned revenues and give two examples.

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

AACSB: Reflective thinking
Blooms: Comprehension
Learning Objective: 4
Level of Learning: 2

172. Describe what is meant by prepaid expenses and give two examples.

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

AACSB: Reflective thinking
Blooms: Comprehension
Learning Objective: 4
Level of Learning: 2

Chapter 002 Review of the Accounting Process

173. What is an accrued liability?

An accrued liability results from an **expense** being **incurred prior to cash payment**. Examples include interest and wages payable.

*AACSB: Reflective thinking
Blooms: Knowledge
Learning Objective: 4
Level of Learning: 2*

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

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

*AACSB: Analytic
Blooms: Comprehension
Learning Objective: 6
Level of Learning: 2*

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

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

*AACSB: Reflective thinking
Blooms: Comprehension
Learning Objective: 6
Level of Learning: 3*

Chapter 002 Review of the Accounting Process

176. What is the purpose of the closing process?

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

AACSB: Reflective thinking

Blooms: Comprehension

Learning Objective: 7

Level of Learning: 2