

Survey of Accounting, 5e (Edmonds)
Chapter 2 Accounting for Accruals and Deferrals

- 1) Bledsoe Company received \$17,000 cash from the issue of stock on January 1, Year 1. During Year 1, 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 Year 1,
- A) Total assets increased by \$20,100.
 - B) Total assets increased by \$600.
 - C) Total assets increased by \$26,100.
 - D) Total assets did not change.

2) Addison 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 Addison's statements?

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

	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

- A) Option A
 - B) Option B
 - C) Option C
 - D) Option D
- 4) 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.

5) Jantzen Company recorded employee salaries earned 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

- A) Option A
- B) Option B
- C) Option C
- D) Option D

6) Revenue on account amounted to \$5,000. 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) \$1,200.
- B) \$2,900.
- C) \$2,850.
- D) \$2,450.

7) The recognition of an expense may be accompanied by which of the following?

- A) An increase in liabilities
- B) A decrease in liabilities
- C) A decrease in revenue
- D) An increase in assets

8) 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) Revenue is recorded in the period when it is earned and expenses are recorded when they are incurred.

9) 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 an asset.
- D) An increase in an asset or a decrease in a liability.

10) Mize Company provided \$45,500 of services on account, and collected \$38,000 from customers during the year. The company also incurred \$37,000 of expenses on account, and paid \$32,400 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 answer choices are correct

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

- A) Purchasing supplies for cash
- B) Paying for one year's rent on July 1
- C) Providing services on account
- D) Each of these answer choices would require an end-of-year adjustment

12) The adjusting 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 liabilities and an increase in equity
- D) A decrease in assets and a decrease in liabilities

13) Jack's Snow Removal Company received a cash advance of \$6,000 on December 1, Year 1 to provide services during the months of December, January, and February. The year-end adjustment on December 31, Year 1, to recognize the partial expiration of the contract will

- A) increase assets by \$2,000
- B) increase equity by \$2,000
- C) increase liabilities by \$2,000
- D) increase assets by \$2,000 and increase equity by \$2,000

14) The following account balances were drawn from the financial statements of Grayson Company:

Cash	\$ 8,800	Accounts payable	\$ 2,500
Accounts receivable	\$ 3,000	Common stock	?
Land	\$ 16,000	Retained earnings, Jan. 1	\$ 5,400
		Revenue	\$ 19,000
		Expenses	\$ 14,500

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

- A) \$15,400
- B) \$19,900
- C) \$900
- D) \$20,800

15) Prior to closing, Syracuse Company's accounting records showed the following balances:

Retained earnings	\$ 16,800
Service revenue	21,750
Interest revenue	1,800
Salaries expense	12,300
Operating expense	3,450
Interest expense	900
Dividends	2,700

After closing, Syracuse's retained earnings balance would be

- A) \$16,800.
- B) \$23,700.
- C) \$21,000.
- D) \$26,400.

16) Sheldon Company began Year 1 with \$1,200 in its supplies account. During the year, the company purchased \$3,400 of supplies on account. The company paid \$3,000 on accounts payable by year end. At the end of Year 1, Sheldon counted \$1,400 of supplies on hand. Sheldon's financial statements for Year 1 would show:

- A) \$1,600 of supplies; \$200 of supplies expense
- B) \$1,400 of supplies; \$2,000 of supplies expense
- C) \$1,400 of supplies; \$3,200 of supplies expense
- D) \$1,600 of supplies; \$3,400 of supplies expense

17) Jason Company paid \$7,200 for one year's rent in advance beginning on October 1, Year 1. Jason's Year 1 income statement would report rent expense, and its statement of cash flows would report cash outflow for rent, respectively, of

- A) \$7,200; \$7,200
- B) \$1,800; \$1,800
- C) \$1,800; \$7,200
- D) \$1,200; \$7,200

18) 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) delay both expense recognition and revenue recognition.

19) Purchasing prepaid rent is classified as a(n):

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

20) Revenue on account amounted to \$9,000. Cash collections of accounts receivable amounted to \$8,100. Cash paid for expenses was \$7,500. The amount of employee salaries accrued at the end of the year was \$900. Cash flow from operating activities was

- A) \$900.
- B) \$600.
- C) \$1,500.
- D) \$8,700.

21) Which of the following accounts would **not** appear on a balance sheet?

- A) Service Revenue.
- B) Salaries Payable.
- C) Unearned Revenue.
- D) Neither Service Revenue nor Unearned Revenue would appear on a balance sheet.

22) Warren Enterprises had the following events during Year 1:

The business issued \$40,000 of common stock to its stockholders.

The business purchased land for \$24,000 cash.

Services were provided to customers for \$32,000 cash.

Services were provided to customers for \$10,000 on account.

The company borrowed \$32,000 from the bank.

Operating expenses of \$24,000 were incurred and paid in cash.

Salary expense of \$1,600 was accrued.

A dividend of \$8,000 was paid to the stockholders of Warren Enterprises.

Assuming the company began operations during Year 1, the amount of retained earnings as of December 31, Year 1 would be:

- A) \$10,000
- B) \$8,400
- C) \$16,400
- D) \$42,000

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

- A) Purchased land for cash.
- B) Purchased supplies for cash.
- C) Paid advertising expense.
- D) Paid dividends to stockholders.

24) Rushmore Company provided services for \$45,000 cash during Year 1. Rushmore incurred \$36,000 expenses on account during Year 1, and by the end of the year, \$9,000 of that amount had been paid with cash. Assuming that these are the only accounting events that affected Rushmore during Year 1,

- A) The amount of net loss shown on the income statement is \$9,000.
- B) The amount of net income shown on the income statement is \$27,000.
- C) The amount of net income shown on the income statement is \$9,000.
- D) The amount of net cash flow from operating activities shown on the statement of cash flows is \$18,000.

25) The following accounts and balances were drawn from the records of Carolina Company on December 31, Year 1:

Cash	\$ 4,000	Accounts receivable	\$ 3,400
Dividends	\$ 2,000	Common stock	\$ 3,900
Land	\$ 3,200	Revenue	\$ 3,200
Accounts payable	\$ 1,800	Expense	\$ 2,200

Total assets on Carolina's December 31, Year 1 balance sheet would amount to:

- A) \$12,600.
- B) \$13,800.
- C) \$7,200.
- D) \$10,600.

26) The following accounts and balances were drawn from the records of Carolina Company on December 31, Year 1:

Cash	\$ 4,000	Accounts receivable	\$ 3,400
Dividends	\$ 2,000	Common stock	\$ 3,900
Land	\$ 3,200	Revenue	\$ 3,200
Accounts payable	\$ 1,800	Expense	\$ 2,200

The amount of net income shown on Carolina's Year 1 income statement would amount to:

- A) \$2,200.
- B) \$3,200.
- C) \$1,000.
- D) \$200.

27) The following accounts and balances were drawn from the records of Carolina Company on December 31, Year 1:

Cash	\$ 4,000	Accounts receivable	\$ 3,400
Dividends	\$ 2,000	Common stock	\$ 3,900
Land	\$ 3,200	Revenue	\$ 3,200
Accounts payable	\$ 1,800	Expense	\$ 2,200

The amount of Carolina's retained earnings after closing on December 31, Year 1 was:

- A) \$5,900.
- B) \$7,200.
- C) \$3,900.
- D) \$4,900.

28) Nelson Company experienced the following transactions during Year 1, its first year in operation.

1. Issued \$12,000 of common stock to stockholders.
2. Provided \$4,600 of services on account.
3. Paid \$3,200 cash for operating expenses.
4. Collected \$3,800 of cash from accounts receivable.
5. Paid a \$200 cash dividend to stockholders.

The amount of net income recognized on Nelson Company's Year 1 income statement is:

- A) \$1,400.
- B) \$800.
- C) \$1,000.
- D) \$1,200.

29) Nelson Company experienced the following transactions during Year 1, its first year in operation.

1. Issued \$12,000 of common stock to stockholders.
2. Provided \$4,600 of services on account.
3. Paid \$3,200 cash for operating expenses.
4. Collected \$3,800 of cash from accounts receivable.
5. Paid a \$200 cash dividend to stockholders.

The amount of net cash flow from operating activities shown on Nelson Company's Year 1 statement of cash flows is

- A) \$400.
- B) \$600.
- C) \$1,400.
- D) \$1,200.

30) Nelson Company experienced the following transactions during Year 1, its first year in operation.

1. Issued \$12,000 of common stock to stockholders.
2. Provided \$4,600 of services on account.
3. Paid \$3,200 cash for operating expenses.
4. Collected \$3,800 of cash from accounts receivable.
5. Paid a \$200 cash dividend to stockholders.

The total amount of assets shown on Nelson Company's December 31, Year 1 balance sheet is:

- A) \$12,400.
- B) \$12,600.
- C) \$13,400.
- D) \$13,200.

31) Nelson Company experienced the following transactions during Year 1, its first year in operation.

1. Issued \$12,000 of common stock to stockholders.
2. Provided \$4,600 of services on account.
3. Paid \$3,200 cash for operating expenses.
4. Collected \$3,800 of cash from accounts receivable.
5. Paid a \$200 cash dividend to stockholders.

The amount of retained earnings appearing on Nelson Company's December 31, Year 1 balance sheet is:

- A) \$1,200.
- B) \$1,000.
- C) \$1,400.
- D) \$13,200.

32) On December 31, Year 1, Gaskins Co. owed \$4,500 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, Year 1, what will be the effect of this accrual on the following items for Gaskins?

	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

33) Duluth Co. collected a \$6,000 cash advance from a customer on November 1, Year 1 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 of the adjusting entry on Duluth's Year 1 financial statements?

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

34) Gomez Company collected \$9,000 on September 1, Year 1 from a customer for services to be provided over a one-year period beginning on that date. How much revenue would Gomez Company report related to this contract on its income statement for the year ended December 31, Year 1? How much would it report as cash flows from operating activities for Year 1?

- A) \$3,000; \$3,000
- B) \$9,000; \$9,000
- C) \$3,000; \$9,000
- D) \$0; \$9,000

35) The matching concept refers to the "matching" of:

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

36) The matching concept most significantly influences which financial statement?

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

- 37) 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.
- 38) 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
- 39) Which of the following correctly states the proper order of the accounting cycle?
- A) Record transactions, adjust accounts, close temporary accounts, prepare statements.
 - B) Adjust accounts, record transactions, close temporary accounts, prepare statements.
 - C) Record transactions, adjust accounts, prepare statements, close temporary accounts.
 - D) Adjust accounts, prepare statements, record transactions, close temporary accounts.
- 40) The purpose of the accrual basis of accounting is to:
- A) Report revenue when received.
 - B) Match assets and liabilities in the proper period.
 - C) Report expenses when cash disbursements are made.
 - D) Match revenues and expenses in the proper period.
- 41) Which of the following financial statement elements is closed at the end of an accounting cycle?
- A) Dividends
 - B) Common stock
 - C) Assets
 - D) Liabilities
- 42) Which of the following accounts is **not** closed at the end of an accounting cycle?
- A) Revenues
 - B) Retained earnings
 - C) Dividends
 - D) Expenses
- 43) The balance in a revenue account at the beginning of an accounting period will always be
- A) zero.
 - B) last period's ending balance.
 - C) higher than the previous periods beginning balance.
 - D) equal to the amount of retained earnings for the previous period.

44) 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 concept.
- B) internal control.
- C) conservatism.
- D) materiality.

45) 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) Option A
- B) Option B
- C) Option C
- D) Option D

46) 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.

47) Which of the following is an asset use transaction?

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

48) Which of the following is a claims exchange transaction?

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

49) 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) Collected cash on accounts receivable.
- D) Recognized revenue earned on a contract where the cash had been collected at an earlier date.

50) Earning revenue on account would be classified as a/an?

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

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

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

52) Wheaton 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 exchange transaction.

53) Dixon Company collected cash during December of Year 1 from a customer for services to be performed during January of Year 2. Indicate whether each of the following statements about this transaction is true or false.

- _____ a) Dixon's Year 2 income statement would not be affected by this transaction.
- _____ b) Dixon's Year 1 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 Year 2.
- _____ e) The transaction increases Dixon's liabilities.

54) 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 a decrease 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) A decrease in Supplies will be accompanied by an increase in Supplies Expense.

55) Wyatt Company paid \$57,000 in January of Year 2 for salaries that had been earned by employees in December of Year 1. Indicate whether each of the following statements about financial statement effects of the January of Year 2 event is true or false.

- a) The income statement for Year 2 is not affected because the salaries expense had been recognized at the end of December in Year 1.
- b) Cash flows from operating activities decreased on the Year 2 statement of cash flows.
- c) Payment of the salaries in Year 2 increased a liability.
- d) The Year 2 statement of changes in stockholders' equity would not be affected because the salaries expense had been recognized at the end of December in Year 1.
- e) Both assets and equity decreased in Year 2 as a result of this transaction.

56) 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) The permanent accounts contain information that is cumulative in nature.
- d) The retained earnings balance at the end of any given year is equal to that year's net income.

57) 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 an increase in liabilities 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 often affect cash flows.
- e) Failure to record accrued salaries at the end of the year will cause reported net income to be higher than it should have been.

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

- a) Asset exchange 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 use transaction cannot result in an increase in equity.
- d) Asset exchange transactions cannot affect cash flows.
- e) Some claims exchange transactions involve an increase in a liability account and a decrease in an equity account.

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

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

- 61) The term "accrual" describes an earnings event that is recognized before cash is paid or received.
- 62) A company may recognize a revenue or expense without a corresponding cash collection or payment in the same accounting period.
- 63) A payment to an employee in settlement of salaries payable decreases an asset and decreases equity.
- 64) An increase in an expense may be accompanied by a decrease in a liability.
- 65) Revenues and expenses are temporary accounts.
- 66) In the closing process, the amounts in temporary accounts are moved to net income, a permanent account.
- 67) Accounts that are closed include expenses, dividends, and unearned revenues.
- 68) After closing, all income statement accounts have non-zero balances.
- 69) Two of the steps in the accounting cycle are adjusting the accounts and closing the accounts.
- 70) Accrual-basis accounting often fails to match expenses with revenues.
- 71) The matching concept leads accountants to select the recognition alternative that produces the lowest amount of net income.
- 72) Adjusting entries never affect a business's cash account.
- 73) Asset use transactions always involve the payment of cash.
- 74) Providing services to customers on account is an asset exchange transaction.
- 75) An adjusting entry that decreases unearned revenue and increases service revenue is a claims exchange transaction.
- 76) Sometimes the recognition of revenue is accompanied by an increase in liabilities.
- 77) The collection of an account receivable is a claims exchange transaction.