Financial Accounting

Chapter 3 & 4 Study Guide

Remember vocabulary and the principles/assumptions too.

Ch 3

58. Which of the following is in accordance with generally accepted accounting principles?

a. Accrual-basis accounting

b. Cash-basis accounting

c. Both accrual-basis and cash-basis accounting

d. Neither accrual-basis nor cash-basis accounting

49. The time period assumption states that

a. a transaction can only affect one period of time.

b. estimates should not be made if a transaction affects more than one time period.

c. adjustments to the company's accounts can only be made in the time period when the business terminates its operations.

d. the economic life of a business can be divided into artificial time periods.

61. The expense recognition principle matches

a. customers with businesses.

b. expenses with revenues.

c. assets with liabilities.

d. creditors with businesses.

62. Live Wire Hot Rod Shop follows the revenue recognition principle. Live Wire services a car on July 31. The customer picks up the vehicle on August 1 and mails the payment to Live Wire on August 5. Live Wire receives the check in the mail on August 6. When should Live Wire show that the revenue was recognized?

a. July 31

b. August 1

c. August 5

d. August 6

66. A candy factory's employees work overtime to finish an order that is sold on February 28. The office sends a statement to the customer in early March and payment is received by mid-March. The overtime wages should be expensed in

a. February.

b. March.

c. the period when the workers receive their checks.

d. either in February or March depending on when the pay period ends.

69. Adjusting entries are required

a. yearly.

b. quarterly.

c. monthly.

d. every time financial statements are prepared.

78. An adjusting entry

a. affects two balance sheet accounts.

b. affects two income statement accounts.

c. affects a balance sheet account and an income statement account.

d. is always a compound entry.

83. Expenses incurred but not yet paid or recorded are called

a. prepaid expenses.

b. accrued expenses.

c. interim expenses.

d. unearned expenses.

86. Accrued revenues are

a. cash received and a liability recorded before services are performed.

b. revenue for services performed and recorded as liabilities before they are received.

c. revenue for services performed but not yet received in cash or recorded.

d. revenue for services performed and already received in cash and recorded.

93. Lake of Fire Company purchased supplies costing $7,000 and debited Supplies for the full amount. At the end of the accounting period, a physical count of supplies revealed $1,900 still on hand. The appropriate adjusting journal entry to be made at the end of the period would be

a. Debit Supplies Expense, $1,900; Credit Supplies, $1,900.

b. Debit Supplies, $5,100; Credit Supplies Expense, $5,100.

c. Debit Supplies Expense, $5,100; Credit Supplies, $5,100.

d. Debit Supplies, $1,900; Credit Supplies Expense, $1,900.

97. Accumulated Depreciation is

a. an expense account.

b. an owner's equity account.

c. a liability account.

d. a contra asset account.

99. REM Real Estate received a check for $27,000 on July 1 which represents a 6 month advance payment of rent on a building it rents to a client. Unearned Rent Revenue was credited for the full $27,000. Financial statements will be prepared on July 31. REM Real Estate should make the following adjusting entry on July 31:

a. Debit Unearned Rent Revenue, $4,500; Credit Rent Revenue, $4,500.

b. Debit Rent Revenue, $4,500; Credit Unearned Rent Revenue, $4,500.

c. Debit Unearned Rent Revenue, $27,000; Credit Rent Revenue, $24,000.

d. Debit Cash, $27,000; Credit Rent Revenue, $27,000.

110. The difference between the cost of a depreciable asset and its related accumulated depreciation is referred to as the

a. market value of the asset.

b. blue book value of the asset.

c. book value of the asset.

d. depreciated difference of the asset.

138. Sebastian Belle has performed $2,000 of CPA services for a client but has not billed the client as of the end of the accounting period. What adjusting entry must Sebastian make?

a. Debit Cash and credit Unearned Service Revenue

b. Debit Accounts Receivable and credit Unearned Service Revenue

c. Debit Accounts Receivable and credit Service Revenue

d. Debit Unearned Service Revenue and credit Service Revenue

140. NWA Air Charter signed a four-month note payable in the amount of $20,000 on September 1. The note requires interest at an annual rate of 9%. The amount of interest to be accrued at the end of September is

a. $150.

b. $200.

c. $600.

d. $1,800.

79. If a company issues common stock for $40,000 and uses $30,000 of the cash to purchase a truck,

a. Assets will be increased by $10,000.

b. Equity will be reduced by $40,000.

c. Assets will be increased by $40,000.

d. Assets will be unchanged.

84. Jamal Company began the year with $64,000 in its Common Stock account and a debit balance in Retained Earnings of $36,000. During the year, the company earned net income of $18,000 and declared and paid $6,000 of dividends. In addition, the company sold additional common stock amounting to $22,000. Based on this information, what should the transaction analysis show for the ending total of all stockholders' equity accounts?

a. $134,000

b. $146,000

c. $62,000

d. $90,000

**Be. 227**

The transactions of the Stormont Store are recorded in the general journal below. You are to post the journal entries to T accounts and compute the August 31 balances.

General Journal

Date Account Titles and Explanation Debit Credit

2012

Aug. 5 Accounts Receivable 2,800

Service Revenue 2,800

10 Cash 3,000

Service Revenue 3,000

19 Rent Expense 1,000

Cash 1,000

25 Cash 1,400

Accounts Receivable 1,400

General Ledger

Cash Accounts Receivable

8/10 3,000 8/19 1,000 8/5 2,800 8/25 1,400

8/25 1,400

8/31 Bal. 3,400 8/31 Bal. 1,400

Service Revenue Rent Expense

8/5 2,800 8/19 1,000

8/10 3,000

8/31 Bal. 5,800 8/31 Bal. 1,000

**Ex. 240**

The chart of accounts used by Norton Printing Company is listed below. You are to indicate the proper accounts to be debited and credited for the following transactions by writing the account number(s) in the appropriate boxes.

CHART OF ACCOUNTS

1 Cash 8 Common Stock

2 Accounts Receivable 9 Retained Earnings

3 Supplies 10 Dividends

4 Equipment 11 Service Revenue

5 Accounts Payable 12 Advertising Expense

6 Notes Payable 13 Rent Expense

7 Unearned Service Revenue

Number(s) Number(s)

of account(s) of account(s)

debited credited

1. Stockholders invest $90,000 cash to start the

business. 1 8

2. Purchased three digital copy machines for

$400,000, paying $100,000 cash and signing a

5-year, 10% note for the remainder. 4 1, 6

3. Purchased $5,000 paper supplies on credit. 3 5

4. Cash received for photocopy services amounted

to $7,000. 1 11

5. Paid $500 cash for radio advertising. 12 1

6. Paid $800 on account for paper supplies

purchased in transaction 3. 5 1

7. Dividends of $1,500 were paid to stockholders. 10 1

8. Paid $1,200 cash for rent for the current month. 13 1

9. Received $2,000 cash advance from a

customer for future copying. 1 7

10. Billed a customer for $450 for photocopy services

completed. 2 11

Chapter 4

54. The periodicity assumption states that:

a. a transaction can only affect one period of time.

b. estimates should not be made if a transaction affects more than one time period.

c. adjustments to the enterprise's accounts can only be made in the time period when the business terminates its operations.

d. the economic life of a business can be divided into artificial time periods.

61. The revenue recognition principle dictates that revenue should be recognized in the accounting records:

a. when cash is received.

b. when it is earned.

c. at the end of the month.

d. in the period that income taxes are paid.

73. Under the cash basis of accounting:

a. Revenue is recognized when services are performed.

b. Expenses are matched with the revenue that is produced.

c. cash must be received before revenue is recognized.

d. a promise to pay is sufficient to recognize revenue.

101. An adjusting entry:

a. affects two balance sheet accounts.

b. affects two income statement accounts.

c. affects a balance sheet account and an income statement account.

d. is always a compound entry.

112. Goods purchased for future use in the business, such as supplies, are called:

a. prepaid expenses.

b. revenues.

c. stockholders’ equity.

d. liabilities.

119. On January 1, 2011, M. Johanson Company purchased equipment for $30,000. The company is depreciating the equipment at the rate of $500 per month. The book value of the equipment at December 31, 2011 is:

a. $0

b. $6,000

c. $24,000

d. $30,000

121. Greese Company purchased office supplies costing $4,000 and debited Office Supplies for the full amount. At the end of the accounting period, a physical count of office supplies revealed $1,100 still on hand. The appropriate adjusting journal entry to be made at the end of the period would be:

a. debit Office Supplies Expense, $1,100; credit Office Supplies, $1,100.

b. debit Office Supplies, $2,900; credit Office Supplies Expense, $2,900.

c. debit Office Supplies Expense, $2,900; credit Office Supplies, $2,900.

d. debit Office Supplies, $1,100; credit Office Supplies Expense, $1,100.

151. Depreciation is the process of:

a. valuing an asset at its fair market value.

b. increasing the value of an asset over its useful life in a rational and systematic manner.

c. allocating the cost of an asset to expense over its useful life in a rational and systematic manner.

d. writing down an asset to its real value each accounting period.

189. Jill Clown earned a salary of $500 for the last week of October. She will be paid on November 1. The adjusting entry for Jill’s employer October 31 is:

a. No entry is required.

b. Salaries Expense 500

Salary payable 500

c. Salaries Expense 500

Cash 500

d. Salaries Payable 500

Cash 500

208. Closing entries:

a. are prepared before the financial statements.

b. reduce the number of permanent accounts.

c. cause the revenue and expense accounts to have zero balances.

d. summarize the activity in every account.

212. A post-closing trial balance will show:

a. zero balances for all accounts.

b. zero balances for balance sheet accounts.

c. only balance sheet accounts.

d. only income statement accounts.

216. Which of the following account’s balance will change between the adjusted trial balance and the post-closing trial balance?

a. Common stock

b. Prepaid rent

c. Unearned service revenue

d. Retained earnings

**Be. 239**

State whether each situation is a prepaid expense (PE), unearned revenue (UR), accrued revenue (AR) or an accrued expense (AE).

AR1. Unrecorded interest on savings bonds is $245.

AE 2. Property taxes that have been incurred but that have not yet been paid or recorded amount to $300.

UR 3. Legal fees of $1,000 were collected in advance. By year end 60 percent were still unearned.

PE 4. Prepaid insurance had a $500 balance prior to adjustment. By year end, 40 percent was still unexpired.

AE5. Unpaid salaries earned by year end but not yet paid or recorded amounted to $1,200.

**Be. 243**

Better Publications, sold annual subscriptions to their magazine for $36,000 in December, 2010. The magazine is published monthly. The new subscribers received their first magazine in January, 2011.

1. What adjusting entry should be made in January if the subscriptions were originally recorded as a liability?

2. What amount will be reported on the January 2011 balance sheet for Unearned Revenue?

1. Unearned Subscription Revenue 3,000

Subscription Revenue 3,000

2. Unearned Subscription Revenue at January 31: 36,000 - 3,000 = $33,000

Be. 244

River Ridge Music School borrowed $30,000 from the bank signing a 10%, 6-month note on November 1. Principal and interest are payable to the bank on May 1. If the company prepares monthly financial statements, what adjusting entry should the company make at November 30 with regard to the note (round answer to the nearest dollar)?

Interest Expense (30,000 × 10% × 1/12) 250

Interest Payable 250

Be. 249

The adjusted trial balance of Warbocks Corporation at December 31, 2011 includes the following accounts: Retained Earnings $12,600; Dividends $5,000; Service Revenue $30,000; Salaries Expense $15,000; Insurance Expense $2,000; Rent Expense $3,500; Supplies Expense $500; and Depreciation Expense $1,000. Prepare a retained earnings statement for the year.

WARBOCKS CORPORATION

Retained Earnings Statement

For the Year Ended December 31, 2011

Retained Earnings, January 1 $12,600

Plus: Net Income 8,000

20,600

Less: Dividends 5,000

Retained Earnings, December 31 $15,600

**Ex. 259**

Match the statements below with the appropriate terms by entering the appropriate letter code in the spaces provided.

TERMS:

A. Prepaid Expenses

B. Unearned Revenues

C. Accrued Revenues

D. Accrued Expenses

STATEMENTS:

B 1. A revenue not yet earned; collected in advance.

A 2. Office supplies on hand that will be used in the next period.

B 3. Subscription revenue collected; not yet earned.

C 4. Rent not yet collected; already earned.

D 5. An expense incurred; not yet paid or recorded.

C 6. A revenue earned; not yet collected or recorded.

A 7. An expense not yet incurred; paid in advance.

D 8. Interest expense incurred; not yet paid.

**Ex. 267**

Janus Coat Company purchased a delivery truck on June 1 for $24,000, paying $8,000 cash and signing a 6%, 2-month note for the remaining balance. The truck is expected to depreciate $4,800 each year. Janus Coat Company prepares monthly financial statements.

**Instructions:**

(a) Prepare the general journal entry to record the acquisition of the delivery truck on June 1st.

(b) Prepare any adjusting journal entries that should be made on June 30th.

(c) Show how the delivery truck will be reflected on Janus Coat Company's balance sheet on June 30th.

(a) June 1 Delivery Truck 24,000

Notes Payable 16,000

Cash 8,000

(To record acquisition of delivery truck and

signing of a 2-month, 6% note)

(b) June 30 Depreciation Expense - Delivery Truck 400

Accumulated Depreciation—Delivery Truck 400

(To record monthly depreciation)

$4,800  12 = $400/month

30 Interest Expense 80

Interest Payable 80

(To accrue interest on notes payable)

$16,000  6%  1/12 = $80

(c) Assets

Delivery Truck $24,000

Less: Accumulated Depreciation—Delivery Truck 400 $23,600

**MATCHING**

290. Match the items below by entering the appropriate code letter in the space provided.

A. Periodicity assumption F. Accrued revenues

B. Cash basis G. Depreciation

C. Revenue recognition principle H. Post-closing trial balance

D. Prepaid expenses I. Accrued expenses

E. Expense recognition principle J. Book value

B 1. Events recorded only in periods the company receives or pays cash

D 2. Expenses paid before they are incurred

J 3. Cost less accumulated depreciation

A 4. The economic life of a business can be divided into artificial time periods

E 5. Efforts are related to accomplishments

H 6. Includes only permanent—balance sheet—accounts

C 7. Revenue is recognized when earned

F 8. Revenues earned but not yet received

I 9. Expenses incurred but not yet paid

G 10. A cost allocation process