

CHAPTER 3: REVIEW OF A COMPANY'S ACCOUNTING SYSTEM

1. The primary purpose of an accounting system is to record, organize, summarize, and report useful information to external financial statement users and stakeholders, as well as to company management, who make operating, investing and financing decisions.

- a. True
- b. False

ANSWER: True

POINTS: 1

DIFFICULTY: Easy

LEARNING OBJECTIVES: ACCT.WHAL.16.3.1 - LO: 3.1

NATIONAL STANDARDS: United States - BUSPROG: Reflective Thinking - BUSPROG: Analytic

LOCAL STANDARDS: United States - OH - Default City - AICPA: FN-Decision Modeling

KEYWORDS: Bloom's: Remembering

2. The another interpretation of the accounting equation is $\text{Assets} = \text{Liabilities} + \text{Contributed Capital} + \text{Beginning Retained Earnings} + \text{Net Income} - \text{Dividends} + \text{Beginning Accumulated Other Comprehensive Income} + \text{Other Comprehensive Income}$.

- a. True
- b. False

ANSWER: True

POINTS: 1

DIFFICULTY: Moderate

LEARNING OBJECTIVES: ACCT.WHAL.16.3.1 - LO: 3.1

NATIONAL STANDARDS: United States - BUSPROG: Reflective Thinking - BUSPROG: Analytic

LOCAL STANDARDS: United States - OH - Default City - AICPA: FN-Decision Modeling

KEYWORDS: Bloom's: Remembering

3. The accounting cycle followed each period by a company includes recording transactions, storing the data, organizing the information, summarizing the events and arrangements, adjusting the accounts, reporting the accounting information in financial statements, and then closing the books.

- a. True
- b. False

ANSWER: True

POINTS: 1

DIFFICULTY: Easy

LEARNING OBJECTIVES: ACCT.WHAL.16.3.2 - LO: 3.2

NATIONAL STANDARDS: United States - BUSPROG: Reflective Thinking - BUSPROG: Analytic

LOCAL STANDARDS: United States - OH - Default City - AICPA: FN-Decision Modeling

KEYWORDS: Bloom's: Remembering

Chapter 3: Review of a Company's Accounting System

4. The last step in the accounting cycle is to prepare the financial statements.
- True
 - False

ANSWER: False

POINTS: 1

DIFFICULTY: Easy

LEARNING OBJECTIVES: ACCT.WHAL.16.3.2 - LO: 3.2

NATIONAL STANDARDS: United States - BUSPROG: Reflective Thinking - BUSPROG: Analytic

LOCAL STANDARDS: United States - OH - Default City - AICPA: FN-Decision Modeling

KEYWORDS: Bloom's: Remembering

5. An advantage of using the general journal is to prevent errors.
- True
 - False

ANSWER: True

POINTS: 1

DIFFICULTY: Easy

LEARNING OBJECTIVES: ACCT.WHAL.16.3.3 - LO: 3.3

NATIONAL STANDARDS: United States - BUSPROG: Reflective Thinking - BUSPROG: Analytic

LOCAL STANDARDS: United States - OH - Default City - AICPA: FN-Decision Modeling

KEYWORDS: Bloom's: Remembering

6. The general journal has all journal entry transactions listed by account title.
- True
 - False

ANSWER: False

POINTS: 1

DIFFICULTY: Easy

LEARNING OBJECTIVES: ACCT.WHAL.16.3.3 - LO: 3.3

NATIONAL STANDARDS: United States - BUSPROG: Reflective Thinking - BUSPROG: Analytic

LOCAL STANDARDS: United States - OH - Default City - AICPA: FN-Decision Modeling

KEYWORDS: Bloom's: Remembering

Chapter 3: Review of a Company's Accounting System

7. The trial balance does help find some errors but it will **not** identify errors resulting from transactions that have **not** been posted or transactions that were posted twice.
- True
 - False

ANSWER: True

POINTS: 1

DIFFICULTY: Easy

LEARNING OBJECTIVES: ACCT.WHAL.16.3.4 - LO: 3.4

NATIONAL STANDARDS: United States - BUSPROG: Reflective Thinking - BUSPROG: Analytic

LOCAL STANDARDS: United States - OH - Default City - AICPA: FN-Decision Modeling

KEYWORDS: Bloom's: Remembering

8. If the trial balance does **not** balance, the preparer should check to see if the difference is evenly divisible by 9. If so there may be a transposition.
- True
 - False

ANSWER: True

POINTS: 1

DIFFICULTY: Easy

LEARNING OBJECTIVES: ACCT.WHAL.16.3.4 - LO: 3.4

NATIONAL STANDARDS: United States - BUSPROG: Reflective Thinking - BUSPROG: Analytic

LOCAL STANDARDS: United States - OH - Default City - AICPA: FN-Decision Modeling

KEYWORDS: Bloom's: Remembering

9. Deferrals are transactions, events, or arrangements in which the cash flows occur after the related expenses are incurred or revenues earned.
- True
 - False

ANSWER: False

POINTS: 1

DIFFICULTY: Easy

LEARNING OBJECTIVES: ACCT.WHAL.16.3.5 - LO: 3.5

NATIONAL STANDARDS: United States - BUSPROG: Reflective Thinking - BUSPROG: Analytic

LOCAL STANDARDS: United States - OH - Default City - AICPA: FN-Decision Modeling

KEYWORDS: Bloom's: Remembering

Chapter 3: Review of a Company's Accounting System

10. In order to prepare the financial statements, the ending balance in each account in the ledger is recomputed to ensure all effects of the adjusting entries have been captured.
- True
 - False

ANSWER: True

POINTS: 1

DIFFICULTY: Easy

LEARNING OBJECTIVES: ACCT.WHAL.16.3.6 - LO: 3.6

NATIONAL STANDARDS: United States - BUSPROG: Reflective Thinking - BUSPROG: Analytic

LOCAL STANDARDS: United States - OH - Default City - AICPA: FN-Decision Modeling

KEYWORDS: Bloom's: Remembering

11. When preparing the financial statements the adjusted trial balance is prepared listing all the accounts and associated balances after the closing entries.
- True
 - False

ANSWER: False

POINTS: 1

DIFFICULTY: Easy

LEARNING OBJECTIVES: ACCT.WHAL.16.3.6 - LO: 3.6

NATIONAL STANDARDS: United States - BUSPROG: Reflective Thinking - BUSPROG: Analytic

LOCAL STANDARDS: United States - OH - Default City - AICPA: FN-Decision Modeling

KEYWORDS: Bloom's: Remembering

12. The purpose of closing entries is to reduce the balance in the temporary (periodic) accounts to zero and to update the Retained Earnings account.
- True
 - False

ANSWER: True

POINTS: 1

DIFFICULTY: Easy

LEARNING OBJECTIVES: ACCT.WHAL.16.3.7 - LO: 3.7

NATIONAL STANDARDS: United States - BUSPROG: Reflective Thinking - BUSPROG: Analytic

LOCAL STANDARDS: United States - OH - Default City - AICPA: FN-Decision Modeling

KEYWORDS: Bloom's: Remembering

Chapter 3: Review of a Company's Accounting System

13. Net sales are computed as sales minus sales returns and allowances and purchase discounts.

- a. True
- b. False

ANSWER: False

POINTS: 1

DIFFICULTY: Easy

LEARNING OBJECTIVES: ACCT.WHAL.16.3.7 - LO: 3.7

NATIONAL STANDARDS: United States - BUSPROG: Reflective Thinking - BUSPROG: Analytic

LOCAL STANDARDS: United States - OH - Default City - AICPA: FN-Decision Modeling

KEYWORDS: Bloom's: Remembering

14. The worksheet is **not** a substitute for accounting records or financial statements but it is a helpful tool for external users to use in order to see the detailed information behind the statements.

- a. True
- b. False

ANSWER: False

POINTS: 1

DIFFICULTY: Easy

LEARNING OBJECTIVES: ACCT.WHAL.16.3.8 - LO: 3.8

NATIONAL STANDARDS: United States - BUSPROG: Reflective Thinking - BUSPROG: Analytic

LOCAL STANDARDS: United States - OH - Default City - AICPA: FN-Decision Modeling

KEYWORDS: Bloom's: Remembering

15. The worksheet is an internal tool that assists with the preparation of the adjusting entries and the financial statements.

- a. True
- b. False

ANSWER: True

POINTS: 1

DIFFICULTY: Easy

LEARNING OBJECTIVES: ACCT.WHAL.16.3.8 - LO: 3.8

NATIONAL STANDARDS: United States - BUSPROG: Reflective Thinking - BUSPROG: Analytic

LOCAL STANDARDS: United States - OH - Default City - AICPA: FN-Decision Modeling

KEYWORDS: Bloom's: Remembering

Chapter 3: Review of a Company's Accounting System

16. Reversing entries should be made for any adjusting entry that adjusts the ending balance of an existing balance sheet account.
- True
 - False

ANSWER: False

POINTS: 1

DIFFICULTY: Easy

LEARNING OBJECTIVES: ACCT.WHAL.16.3.9 - LO: 3.9

NATIONAL STANDARDS: United States - BUSPROG: Reflective Thinking - BUSPROG: Analytic

LOCAL STANDARDS: United States - OH - Default City - AICPA: FN-Decision Modeling

KEYWORDS: Bloom's: Remembering

17. Although optional, a reversing entry is usually made for adjusting entries that accrue expenses to be paid in the next accounting period.
- True
 - False

ANSWER: True

POINTS: 1

DIFFICULTY: Easy

LEARNING OBJECTIVES: ACCT.WHAL.16.3.9 - LO: 3.9

NATIONAL STANDARDS: United States - BUSPROG: Reflective Thinking - BUSPROG: Analytic

LOCAL STANDARDS: United States - OH - Default City - AICPA: FN-Decision Modeling

KEYWORDS: Bloom's: Remembering

18. Companies create subsidiary ledgers to divide accounting tasks and to reduce the size of the general ledger, while keeping up-to-date records of customers and suppliers. This process is also used to minimize errors in recording transactions.
- True
 - False

ANSWER: True

POINTS: 1

DIFFICULTY: Easy

LEARNING OBJECTIVES: ACCT.WHAL.16.3.1 - LO: 3.1

NATIONAL STANDARDS: United States - BUSPROG: Reflective Thinking - BUSPROG: Analytic

LOCAL STANDARDS: United States - OH - Default City - AICPA: FN-Decision Modeling

KEYWORDS: Bloom's: Remembering

Chapter 3: Review of a Company's Accounting System

19. Special journals are used to divide accounting tasks, minimize errors, and to keep up-to-date records of customers and suppliers.
- True
 - False

ANSWER: False

POINTS: 1

DIFFICULTY: Easy

LEARNING OBJECTIVES: ACCT.WHAL.16.3.1 - LO: 3.1

NATIONAL STANDARDS: United States - BUSPROG: Reflective Thinking - BUSPROG: Analytic

LOCAL STANDARDS: United States - OH - Default City - AICPA: FN-Decision Modeling

KEYWORDS: Bloom's: Remembering

20. The adjustment to convert cash-basis collections from customers to accrual-basis revenue earned requires adding the ending balance in accounts receivable and subtracting the beginning balance in accounts receivable.
- True
 - False

ANSWER: True

POINTS: 1

DIFFICULTY: Easy

LEARNING OBJECTIVES: ACCT.WHAL.16.3.10 - LO: 3.11

NATIONAL STANDARDS: United States - BUSPROG: Reflective Thinking - BUSPROG: Analytic

LOCAL STANDARDS: United States - OH - Default City - AICPA: FN-Decision Modeling

KEYWORDS: Bloom's: Remembering

21. The adjustment necessary to convert cash-basis payments for other operating costs to accrual-basis operating expenses requires the addition of ending prepaid expenses to the beginning prepaid expenses, subtracting the beginning accrued expenses from this amount, and finally adding the ending accrued expenses.
- True
 - False

ANSWER: False

POINTS: 1

DIFFICULTY: Moderate

LEARNING OBJECTIVES: ACCT.WHAL.16.3.10 - LO: 3.11

NATIONAL STANDARDS: United States - BUSPROG: Reflective Thinking - BUSPROG: Analytic

LOCAL STANDARDS: United States - OH - Default City - AICPA: FN-Decision Modeling

KEYWORDS: Bloom's: Remembering

Chapter 3: Review of a Company's Accounting System

22. The accounting equation can be expressed as
- Assets = Liabilities - Shareholders' Equity
 - Assets + Liabilities = Shareholders' Equity
 - Assets - Liabilities = Shareholders' Equity
 - Assets + Shareholders' Equity = Liabilities

ANSWER: c

POINTS: 1

DIFFICULTY: Easy

LEARNING OBJECTIVES: ACCT.WHAL.16.3.1 - LO: 3.1

NATIONAL STANDARDS: United States - BUSPROG: Reflective Thinking - BUSPROG: Analytic

LOCAL STANDARDS: United States - OH - Default City - AICPA: FN-Decision Modeling

KEYWORDS: Bloom's: Remembering

23. Which of the following rules is **incorrect**?
- The accounting equation must always remain in balance.
 - Asset accounts are increased by debit entries and decreased by credit entries.
 - Expense accounts normally have debit balances.
 - Common stock accounts are increased by debit entries and decreased by credit entries.

ANSWER: d

POINTS: 1

DIFFICULTY: Moderate

LEARNING OBJECTIVES: ACCT.WHAL.16.3.1 - LO: 3.1

NATIONAL STANDARDS: United States - BUSPROG: Reflective Thinking - BUSPROG: Analytic

LOCAL STANDARDS: United States - OH - Default City - AICPA: FN-Decision Modeling

KEYWORDS: Bloom's: Understanding

Chapter 3: Review of a Company's Accounting System

24. Which T-account is **incorrect**?

a. **Depreciation Expense**

+	-
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b. **Interest Receivable**

+	-
---	---

c. **Capital Stock**

-	+
---	---

d. **Unearned Rent**

+	-
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ANSWER: d

POINTS: 1

DIFFICULTY: Moderate

LEARNING OBJECTIVES: ACCT.WHAL.16.3.1 - LO: 3.1

NATIONAL STANDARDS: United States - BUSPROG: Analytic

LOCAL STANDARDS: United States - OH - Default City - AICPA: FN-Measurement

KEYWORDS: Bloom's: Analyzing

25. Which accounts are increased by using debits?

a. Cost of Goods Sold, Common Stock, Assets

b. Dividends, Revenue, Liabilities

c. Assets, Cost of Goods Sold, Expenses

d. Liabilities, Capital Stock, Revenue

ANSWER: c

POINTS: 1

DIFFICULTY: Easy

LEARNING OBJECTIVES: ACCT.WHAL.16.3.1 - LO: 3.1

NATIONAL STANDARDS: United States - BUSPROG: Reflective Thinking - BUSPROG: Analytic

LOCAL STANDARDS: United States - OH - Default City - AICPA: FN-Decision Modeling

KEYWORDS: Bloom's: Remembering

Chapter 3: Review of a Company's Accounting System

26. Which of the following is a permanent account?

- a. Dividend Revenue
- b. Allowance for Doubtful Accounts
- c. Interest Expense
- d. Sales Revenue

ANSWER: b

POINTS: 1

DIFFICULTY: Easy

LEARNING OBJECTIVES: ACCT.WHAL.16.3.1 - LO: 3.1

NATIONAL STANDARDS: United States - BUSPROG: Reflective Thinking - BUSPROG: Analytic

LOCAL STANDARDS: United States - OH - Default City - AICPA: FN-Decision Modeling

KEYWORDS: Bloom's: Remembering

27. Which of the following is **not** a component of an accounting system?

- a. the input source documents
- b. the framework for operation of the system
- c. the output reports
- d. All of the answer choices are components of an accounting system.

ANSWER: d

POINTS: 1

DIFFICULTY: Easy

LEARNING OBJECTIVES: ACCT.WHAL.16.3.1 - LO: 3.1

NATIONAL STANDARDS: United States - BUSPROG: Reflective Thinking - BUSPROG: Analytic

LOCAL STANDARDS: United States - OH - Default City - AICPA: FN-Decision Modeling

KEYWORDS: Bloom's: Remembering

28. Which of the following is a temporary account?

- a. Retained Earnings
- b. Accounts Receivable
- c. Purchases Returns and Allowances
- d. Accumulated Depreciation

ANSWER: c

POINTS: 1

DIFFICULTY: Easy

LEARNING OBJECTIVES: ACCT.WHAL.16.3.1 - LO: 3.1

NATIONAL STANDARDS: United States - BUSPROG: Reflective Thinking - BUSPROG: Analytic

LOCAL STANDARDS: United States - OH - Default City - AICPA: FN-Decision Modeling

KEYWORDS: Bloom's: Understanding

Chapter 3: Review of a Company's Accounting System

29. In terms of debits and credits, which types of accounts have the same (debit or credit) normal balances?
- dividends, expenses, assets
 - assets, capital stock, revenues
 - retained earnings, dividends, liabilities
 - expenses, liabilities, capital stock

ANSWER: a

POINTS: 1

DIFFICULTY: Moderate

LEARNING OBJECTIVES: ACCT.WHAL.16.3.1 - LO: 3.1

NATIONAL STANDARDS: United States - BUSPROG: Reflective Thinking - BUSPROG: Analytic

LOCAL STANDARDS: United States - OH - Default City - AICPA: FN-Decision Modeling

KEYWORDS: Bloom's: Remembering

30. Information related to the Berkley Company for the calendar year 2015 follows:

Liabilities, December 31, 2015	\$400
Assets, December 31, 2015	700
Dividends distributed during 2015	90
Liabilities, December 31, 2014	250
Assets, December 31, 2014	350

Assuming **no** capital stock was issued during 2015, the net income earned by the Berkley Company during 2015 was

- \$110
- \$200
- \$260
- \$290

ANSWER: d

POINTS: 1

DIFFICULTY: Moderate

LEARNING OBJECTIVES: ACCT.WHAL.16.3.1 - LO: 3.1

NATIONAL STANDARDS: United States - BUSPROG: Analytic

LOCAL STANDARDS: United States - OH - Default City - AICPA: FN-Measurement

KEYWORDS: Bloom's: Analyzing

Chapter 3: Review of a Company's Accounting System

31. Which of the following is the third major step in the accounting cycle?
- prepare the financial statements
 - record the daily transactions in a journal
 - prepare and post adjusting entries
 - post the journal entries to the accounts in the ledger

ANSWER: c

POINTS: 1

DIFFICULTY: Easy

LEARNING OBJECTIVES: ACCT.WHAL.16.3.2 - LO: 3.2

NATIONAL STANDARDS: United States - BUSPROG: Reflective Thinking - BUSPROG: Analytic

LOCAL STANDARDS: United States - OH - Default City - AICPA: FN-Decision Modeling

KEYWORDS: Bloom's: Remembering

32. Which of the following is **not** a major step necessary to complete the accounting cycle?
- Prepare and post-closing entries
 - Prepare the adjusted trial balance
 - Prepare adjusting entries
 - Record the transactions, events, and arrangements

ANSWER: b

POINTS: 1

DIFFICULTY: Moderate

LEARNING OBJECTIVES: ACCT.WHAL.16.3.2 - LO: 3.2

NATIONAL STANDARDS: United States - BUSPROG: Reflective Thinking - BUSPROG: Analytic

LOCAL STANDARDS: United States - OH - Default City - AICPA: FN-Decision Modeling

KEYWORDS: Bloom's: Understanding

33. Which of the following is a major step in completing the accounting cycle?
- Prepare financial statements
 - Record transactions, events, and arrangements
 - Prepare adjusting entries
 - All of these answer choices are correct.

ANSWER: d

POINTS: 1

DIFFICULTY: Easy

LEARNING OBJECTIVES: ACCT.WHAL.16.3.2 - LO: 3.2

NATIONAL STANDARDS: United States - BUSPROG: Reflective Thinking - BUSPROG: Analytic

LOCAL STANDARDS: United States - OH - Default City - AICPA: FN-Decision Modeling

KEYWORDS: Bloom's: Remembering

Chapter 3: Review of a Company's Accounting System

34. The accounting cycle is a series of steps that process the accounting information contained in its transactions, events, and arrangements. What are the steps involved in this task?
- Record, organize, close, report
 - Organize, record, report, analyze
 - Record, organize, summarize, report
 - Analyze, prepare, record, report

ANSWER: c

POINTS: 1

DIFFICULTY: Moderate

LEARNING OBJECTIVES: ACCT.WHAL.16.3.2 - LO: 3.2

NATIONAL STANDARDS: United States - BUSPROG: Reflective Thinking - BUSPROG: Analytic

LOCAL STANDARDS: United States - OH - Default City - AICPA: FN-Decision Modeling

KEYWORDS: Bloom's: Understanding

35. When you prepare a journal entry, the standard format is to list all
- asset accounts first.
 - accounts to be debited first.
 - liability accounts first.
 - accounts to be credited first.

ANSWER: b

POINTS: 1

DIFFICULTY: Easy

LEARNING OBJECTIVES: ACCT.WHAL.16.3.3 - LO: 3.3

NATIONAL STANDARDS: United States - BUSPROG: Reflective Thinking - BUSPROG: Analytic

LOCAL STANDARDS: United States - OH - Default City - AICPA: FN-Decision Modeling

KEYWORDS: Bloom's: Remembering

36. Which of the following is true regarding the general journal?
- It keeps up to date records of all customers and suppliers.
 - It helps divide up accounting tasks.
 - It helps prevent errors.
 - It helps control the spending of the organization.

ANSWER: c

POINTS: 1

DIFFICULTY: Easy

LEARNING OBJECTIVES: ACCT.WHAL.16.3.3 - LO: 3.3

NATIONAL STANDARDS: United States - BUSPROG: Reflective Thinking - BUSPROG: Analytic

LOCAL STANDARDS: United States - OH - Default City - AICPA: FN-Decision Modeling

KEYWORDS: Bloom's: Remembering

Chapter 3: Review of a Company's Accounting System

37. Which of the following errors will be detected by a trial balance?

- a. posting a credit to Sales instead of to Accounts Payable
- b. incorrectly computing the balance of the cash account
- c. failure to journalize a sales transaction at all
- d. forgetting to post a purchase transaction at all

ANSWER: b

POINTS: 1

DIFFICULTY: Moderate

LEARNING OBJECTIVES: ACCT.WHAL.16.3.4 - LO: 3.4

NATIONAL STANDARDS: United States - BUSPROG: Reflective Thinking - BUSPROG: Analytic

LOCAL STANDARDS: United States - OH - Default City - AICPA: FN-Decision Modeling

KEYWORDS: Bloom's: Remembering

38. The basic purpose of a trial balance is to

- a. list all of the accounts in the general ledger.
- b. list all of the accounts in the general ledger that have a balance.
- c. be sure that all journal entries have been recorded.
- d. verify that the total credits equal the total debits.

ANSWER: d

POINTS: 1

DIFFICULTY: Moderate

LEARNING OBJECTIVES: ACCT.WHAL.16.3.4 - LO: 3.4

NATIONAL STANDARDS: United States - BUSPROG: Reflective Thinking - BUSPROG: Analytic

LOCAL STANDARDS: United States - OH - Default City - AICPA: FN-Decision Modeling

KEYWORDS: Bloom's: Remembering

39. What relationship exists between the general journal and the general ledger?

- a. The general ledger accounts contain the same information as those in the general journal, but it is just in a different format.
- b. The balances in the general ledger will always equal those in the general journal.
- c. After all postings from the general journal are complete, the debit balances in the general ledger will rarely equal the credit balances.
- d. The number of accounts in the general journal will always be larger than the number of accounts in the general ledger.

ANSWER: a

POINTS: 1

DIFFICULTY: Moderate

LEARNING OBJECTIVES: ACCT.WHAL.16.3.4 - LO: 3.4

NATIONAL STANDARDS: United States - BUSPROG: Reflective Thinking - BUSPROG: Analytic

LOCAL STANDARDS: United States - OH - Default City - AICPA: FN-Decision Modeling

KEYWORDS: Bloom's: Remembering

Chapter 3: Review of a Company's Accounting System

40. The entire group of accounts for a company is referred to as the
- general ledger.
 - worksheet.
 - journal.
 - document of original entry.

ANSWER: a

POINTS: 1

DIFFICULTY: Easy

LEARNING OBJECTIVES: ACCT.WHAL.16.3.4 - LO: 3.4

NATIONAL STANDARDS: United States - BUSPROG: Reflective Thinking - BUSPROG: Analytic

LOCAL STANDARDS: United States - OH - Default City - AICPA: FN-Decision Modeling

KEYWORDS: Bloom's: Remembering

41. An example of a transposition is
- presenting the cash account at \$1,500 instead of \$15,000.
 - presenting prepaid insurance at \$920 instead of \$290.
 - incorrectly posting a credit amount as a debit amount in the general ledger.
 - not journalizing a sales transaction at all.

ANSWER: b

POINTS: 1

DIFFICULTY: Easy

LEARNING OBJECTIVES: ACCT.WHAL.16.3.4 - LO: 3.4

NATIONAL STANDARDS: United States - BUSPROG: Reflective Thinking - BUSPROG: Analytic

LOCAL STANDARDS: United States - OH - Default City - AICPA: FN-Decision Modeling

KEYWORDS: Bloom's: Remembering

42. If the trial balance does **not** balance and the difference between debits and credits is evenly divisible by 9, there is a good chance that
- a transaction has not been recorded.
 - a transaction has been journalized to the wrong account.
 - a transposition or a slide has occurred.
 - only one side of the transaction has been recorded.

ANSWER: c

POINTS: 1

DIFFICULTY: Moderate

LEARNING OBJECTIVES: ACCT.WHAL.16.3.4 - LO: 3.4

NATIONAL STANDARDS: United States - BUSPROG: Reflective Thinking - BUSPROG: Analytic

LOCAL STANDARDS: United States - OH - Default City - AICPA: FN-Decision Modeling

KEYWORDS: Bloom's: Remembering

Chapter 3: Review of a Company's Accounting System

43. A trial balance does **not** identify all types of errors. Which of the following are errors that are **not** identified using the trial balance?
- incorrectly recording the transaction amount, but the debits still equal the credits
 - incorrectly posting part of a journal entry to the wrong account
 - not recording a transaction
 - All of these answer choices represent errors that are not identified using the trial balance.

ANSWER: d

POINTS: 1

DIFFICULTY: Easy

LEARNING OBJECTIVES: ACCT.WHAL.16.3.4 - LO: 3.4

NATIONAL STANDARDS: United States - BUSPROG: Reflective Thinking - BUSPROG: Analytic

LOCAL STANDARDS: United States - OH - Default City - AICPA: FN-Decision Modeling

KEYWORDS: Bloom's: Remembering

44. Posting is the procedure of transferring information from the
- journal to the ledger
 - trial balance to the worksheet
 - ledger to the journal
 - worksheet to the financial statements

ANSWER: a

POINTS: 1

DIFFICULTY: Challenging

LEARNING OBJECTIVES: ACCT.WHAL.16.3.4 - LO: 3.4

NATIONAL STANDARDS: United States - BUSPROG: Reflective Thinking - BUSPROG: Analytic

LOCAL STANDARDS: United States - OH - Default City - AICPA: FN-Decision Modeling

KEYWORDS: Bloom's: Remembering

45. Which of the following errors is **not** identified by using the trial balance?
- an unposted transaction
 - a transposition
 - a slide
 - recording a debit amount that differs from the credit amount recorded

ANSWER: a

POINTS: 1

DIFFICULTY: Moderate

LEARNING OBJECTIVES: ACCT.WHAL.16.3.4 - LO: 3.4

NATIONAL STANDARDS: United States - BUSPROG: Reflective Thinking - BUSPROG: Analytic

LOCAL STANDARDS: United States - OH - Default City - AICPA: FN-Decision Modeling

KEYWORDS: Bloom's: Understanding

Chapter 3: Review of a Company's Accounting System

46. A prepaid expense is

- a. a payment received by the company in advance for the future sale of inventory or performance of services
- b. an item of goods or services purchased by the company for use in its operations but not fully consumed by the end of the accounting period
- c. an expense that has been incurred during the accounting period but has been neither paid nor recorded
- d. an item that has been earned by the company during the accounting period but has been neither received nor recorded

ANSWER: b

POINTS: 1

DIFFICULTY: Moderate

LEARNING OBJECTIVES: ACCT.WHAL.16.3.5 - LO: 3.5

NATIONAL STANDARDS: United States - BUSPROG: Reflective Thinking - BUSPROG: Analytic

LOCAL STANDARDS: United States - OH - Default City - AICPA: FN-Decision Modeling

KEYWORDS: Bloom's: Remembering

47. Which of the following is an economic resource that should be depreciated over the accounting periods estimated to be benefited?

- a. salaries incurred but unpaid at year-end
- b. rent collected in advance for a three-year rental period
- c. equipment purchased for use in the business operations
- d. interest revenue accrued on investment in bonds

ANSWER: c

POINTS: 1

DIFFICULTY: Moderate

LEARNING OBJECTIVES: ACCT.WHAL.16.3.5 - LO: 3.5

NATIONAL STANDARDS: United States - BUSPROG: Reflective Thinking - BUSPROG: Analytic

LOCAL STANDARDS: United States - OH - Default City - AICPA: FN-Decision Modeling

KEYWORDS: Bloom's: Remembering

48. Adjusting journal entries are made

- a. at the beginning of the accounting period
- b. at the end of the accounting period
- c. when revenue is realized (or realizable)
- d. anytime we need to adjust an account

ANSWER: b

POINTS: 1

DIFFICULTY: Easy

LEARNING OBJECTIVES: ACCT.WHAL.16.3.5 - LO: 3.5

NATIONAL STANDARDS: United States - BUSPROG: Reflective Thinking - BUSPROG: Analytic

LOCAL STANDARDS: United States - OH - Default City - AICPA: FN-Decision Modeling

KEYWORDS: Bloom's: Remembering

Chapter 3: Review of a Company's Accounting System

49. The Oliver Construction Company received \$18,000 for six months rental income in advance on November 1, 2015, and credited the Rental Revenue account. The required adjusting entry on December 31, 2015, would include a
- credit to Rental Revenue for \$6,000
 - debit to Rental Revenue for \$12,000
 - credit to Rental Receivable for \$12,000
 - debit to Rental Revenue for \$6,000

ANSWER: b

POINTS: 1

DIFFICULTY: Moderate

LEARNING OBJECTIVES: ACCT.WHAL.16.3.5 - LO: 3.5

NATIONAL STANDARDS: United States - BUSPORG: Analytic

LOCAL STANDARDS: United States - OH - Default City - AICPA: FN-Measurement

KEYWORDS: Bloom's: Understanding

50. Which of the following adjusting entries involves the recognition of an accrued expense?
- recording depreciation on a long-lived asset
 - writing off the portion of an insurance policy that has expired
 - recognition of salaries owed to employees for work done during the current period that will be paid during the next accounting period
 - recognition of bad debt losses that are expected to result from making sales on credit terms

ANSWER: c

POINTS: 1

DIFFICULTY: Challenging

LEARNING OBJECTIVES: ACCT.WHAL.16.3.5 - LO: 3.5

NATIONAL STANDARDS: United States - BUSPROG: Reflective Thinking - BUSPROG: Analytic

LOCAL STANDARDS: United States - OH - Default City - AICPA: FN-Decision Modeling

KEYWORDS: Bloom's: Analyzing

Chapter 3: Review of a Company's Accounting System

51. On March 31, 2015, the Turi Company purchased a two-year fire insurance policy. Turi recorded the purchase by debiting Prepaid Insurance and crediting Cash for \$10,000. Which of the following adjusting entries should Turi prepare at the end of 2015?

- a. Prepaid Insurance 3,750
 Insurance Expense 3,750
- b. Insurance Expense 3,750
 Prepaid Insurance 3,750
- c. Prepaid Insurance 5,500
 Insurance Expense 5,500
- d. Insurance Expense 5,000
 Prepaid Insurance 5,000

ANSWER: b

POINTS: 1

DIFFICULTY: Moderate

LEARNING OBJECTIVES: ACCT.WHAL.16.3.5 - LO: 3.5

NATIONAL STANDARDS: United States - BUSPROG: Analytic

LOCAL STANDARDS: United States - OH - Default City - AICPA: FN-Measurement

KEYWORDS: Bloom's: Analyzing

52. Adjusting entries are made

- a. to match the consumption of prepaid assets against current revenues.
- b. to record accrued expenses.
- c. to record estimated items, such as depreciation.
- d. for all of these reasons.

ANSWER: d

POINTS: 1

DIFFICULTY: Easy

LEARNING OBJECTIVES: ACCT.WHAL.16.3.5 - LO: 3.5

NATIONAL STANDARDS: United States - BUSPROG: Reflective Thinking - BUSPROG: Analytic

LOCAL STANDARDS: United States - OH - Default City - AICPA: FN-Decision Modeling

KEYWORDS: Bloom's: Remembering

Chapter 3: Review of a Company's Accounting System

53. On April 1, 2015, Miller Company paid \$6,280 for a two-year insurance policy. On that date, Miller recorded the purchase by debiting Prepaid Insurance and crediting Cash. The correct December 31, 2015, adjusting entry would be
- a. Prepaid Insurance 3,140
 Insurance Expense 3,140
 - b. Insurance Expense 2,355
 Prepaid Insurance 2,355
 - c. Prepaid Insurance 2,355
 Insurance Expense 2,355
 - d. Insurance Expense 3,925
 Prepaid Insurance 3,925

ANSWER: b

POINTS: 1

DIFFICULTY: Moderate

LEARNING OBJECTIVES: ACCT.WHAL.16.3.5 - LO: 3.5

NATIONAL STANDARDS: United States - BUSPORG: Analytic

LOCAL STANDARDS: United States - OH - Default City - AICPA: FN-Decision Modeling

KEYWORDS: Bloom's: Analyzing

54. On August 1, 2015, Yellow Company paid \$6,320 for a three-year insurance policy. On that date, an expense account was charged. In the adjusting entry on December 31, 2015, there would be a
- a. debit to Insurance Expense for \$175.
 - b. credit to Prepaid Insurance for \$2,107.
 - c. credit to Prepaid Insurance for \$527.
 - d. credit to Insurance Expense for \$5,442.

ANSWER: d

POINTS: 1

DIFFICULTY: Moderate

LEARNING OBJECTIVES: ACCT.WHAL.16.3.5 - LO: 3.5

NATIONAL STANDARDS: United States - BUSPORG: Analytic

LOCAL STANDARDS: United States - OH - Default City - AICPA: FN-Measurement

KEYWORDS: Bloom's: Analyzing

Chapter 3: Review of a Company's Accounting System

55. On June 1, 2015, Little Corporation received \$5,320 in advance for a two-year rental of some land and properly credited Unearned Rent. In the adjusting entry at December 31, 2015, there would be a
- debit to Unearned Rent for \$1,108
 - credit to Rent Revenue for \$1,552
 - credit to Unearned Rent for \$1,552
 - debit to Unearned Rent for \$5,320

ANSWER: b

POINTS: 1

DIFFICULTY: Moderate

LEARNING OBJECTIVES: ACCT.WHAL.16.3.5 - LO: 3.5

NATIONAL STANDARDS: United States - BUSPORG: Analytic

LOCAL STANDARDS: United States - OH - Default City - AICPA: FN-Measurement

KEYWORDS: Bloom's: Analyzing

56. On February 1, 2015, Apollo Company received \$24,000 in advance for a three-year rental of land, and credited Rent Revenue for the entire amount. The correct December 31, 2015 adjusting entry would be
- Unearned Rent 16,667
Rent Revenue 16,667
 - Rent Revenue 16,667
Unearned Rent 16,667
 - Unearned Rent 7,333
Rent Revenue 7,333
 - Rent Revenue 7,333
Unearned Rent 7,333

ANSWER: b

POINTS: 1

DIFFICULTY: Moderate

LEARNING OBJECTIVES: ACCT.WHAL.16.3.5 - LO: 3.5

NATIONAL STANDARDS: United States - BUSPORG: Analytic

LOCAL STANDARDS: United States - OH - Default City - AICPA: FN-Measurement

KEYWORDS: Bloom's: Analyzing

Chapter 3: Review of a Company's Accounting System

57. On May 1, 2015, Alang Corporation borrowed \$3,600 on a two-year, 6% note payable. Interest is due and payable at the end of each six months. Alang makes all interest payments on schedule. The correct December 31, 2016, adjusting entry would be

a. Interest Expense 36
 Interest Payable 36

b. Interest Payable 144
 Cash 144

c. Interest Expense 108
 Cash 108

d. Interest Expense 144
 Interest Payable 144

ANSWER: a

POINTS: 1

DIFFICULTY: Challenging

LEARNING OBJECTIVES: ACCT.WHAL.16.3.5 - LO: 3.5

NATIONAL STANDARDS: United States - BUSPORG: Analytic

LOCAL STANDARDS: United States - OH - Default City - AICPA: FN-Measurement

KEYWORDS: Bloom's: Analyzing

58. Which of the following is an accrued expense?

- a. depreciation
- b. employees' salaries
- c. interest revenue
- d. rental expense paid three months in advance

ANSWER: b

POINTS: 1

DIFFICULTY: Easy

LEARNING OBJECTIVES: ACCT.WHAL.16.3.5 - LO: 3.5

NATIONAL STANDARDS: United States - BUSPROG: Reflective Thinking - BUSPROG: Analytic

LOCAL STANDARDS: United States - OH - Default City - AICPA: FN-Decision Modeling

KEYWORDS: Bloom's: Remembering

Chapter 3: Review of a Company's Accounting System

59. An accrued expense is an expense
- incurred but neither paid nor recorded.
 - incurred, paid, and recorded.
 - paid and recorded but not incurred.
 - whose amount is subject to estimation.

ANSWER: a

POINTS: 1

DIFFICULTY: Moderate

LEARNING OBJECTIVES: ACCT.WHAL.16.3.5 - LO: 3.5

NATIONAL STANDARDS: United States - BUSPROG: Reflective Thinking - BUSPROG: Analytic

LOCAL STANDARDS: United States - OH - Default City - AICPA: FN-Decision Modeling

KEYWORDS: Bloom's: Understanding

60. When cash is debited for rents that are collected but are **not** yet earned, the amount credited should be
- recognized as revenue when collected.
 - presented as a liability until earned.
 - recorded as an asset until earned.
 - presented as a separate item in shareholders' equity.

ANSWER: b

POINTS: 1

DIFFICULTY: Moderate

LEARNING OBJECTIVES: ACCT.WHAL.16.3.5 - LO: 3.5

NATIONAL STANDARDS: United States - BUSPROG: Reflective Thinking - BUSPROG: Analytic

LOCAL STANDARDS: United States - OH - Default City - AICPA: FN-Decision Modeling

KEYWORDS: Bloom's: Understanding

Chapter 3: Review of a Company's Accounting System

61. The balances in deferred (unearned) revenue accounts represent amounts that are

	<u>Earned</u>	<u>Collected</u>
I.	Yes	No
II.	Yes	Yes
III.	No	No
IV.	No	Yes
a.	I	
b.	II	
c.	III	
d.	IV	

ANSWER: d

POINTS: 1

DIFFICULTY: Moderate

LEARNING OBJECTIVES: ACCT.WHAL.16.3.5 - LO: 3.5

NATIONAL STANDARDS: United States - BUSPROG: Reflective Thinking - BUSPROG: Analytic

LOCAL STANDARDS: United States - OH - Default City - AICPA: FN-Decision Modeling

KEYWORDS: Bloom's: Understanding

62. Rental receipts for the period July 1, 2015, through June 30, 2016, were collected on June 30, 2015. The effects of these economic events on the 2015 financial statements for unearned revenue and rent revenue are

	<u>Unearned Revenue</u>	<u>Rent Revenue</u>
I.	Increase	Increase
II.	Increase	Decrease
III.	Decrease	No effect
IV.	Decrease	Increase
a.	I	
b.	II	
c.	III	
d.	IV	

ANSWER: a

POINTS: 1

DIFFICULTY: Moderate

LEARNING OBJECTIVES: ACCT.WHAL.16.3.5 - LO: 3.5

NATIONAL STANDARDS: United States - BUSPROG: Analytic

LOCAL STANDARDS: United States - OH - Default City - AICPA: FN-Decision Modeling

KEYWORDS: Bloom's: Analyzing

Chapter 3: Review of a Company's Accounting System

63. An adjusting entry always affects
- balance sheet accounts only.
 - income statement accounts only.
 - an income statement account and a balance sheet account.
 - either a balance sheet account or an income statement account but not both.

ANSWER: c

POINTS: 1

DIFFICULTY: Easy

LEARNING OBJECTIVES: ACCT.WHAL.16.3.5 - LO: 3.5

NATIONAL STANDARDS: United States - BUSPROG: Reflective Thinking - BUSPROG: Analytic

LOCAL STANDARDS: United States - OH - Default City - AICPA: FN-Decision Modeling

KEYWORDS: Bloom's: Remembering

64. The Samuel Company uses the straight-line method to depreciate its equipment. On May 1, 2015, the company purchased some equipment for \$224,000. The equipment is estimated to have a useful life of ten years and a salvage value of \$20,000. On December 31, 2015, how much depreciation expense should Samuel record for the equipment in the adjusting entry?
- \$20,400
 - \$18,500
 - \$13,600
 - \$8,500

ANSWER: c

POINTS: 1

DIFFICULTY: Moderate

LEARNING OBJECTIVES: ACCT.WHAL.16.3.5 - LO: 3.5

NATIONAL STANDARDS: United States - BUSPROG: Analytic

LOCAL STANDARDS: United States - OH - Default City - AICPA: FN-Measurement

KEYWORDS: Bloom's: Analyzing

Chapter 3: Review of a Company's Accounting System

65. On November 1, 2015, the Morrison Company purchased a two-year umbrella insurance policy for \$3,600 and recorded the transaction by debiting Prepaid Insurance and crediting Cash. Which of the following adjusting entries would be used by Morrison to properly account for prepaid insurance on December 31, 2015?

a. Insurance Expense 300
 Prepaid Insurance 300

b. Prepaid Insurance 3,600
 Insurance Expense 3,600

c. Insurance Expense 300
 Accumulated Amortization
 -Insurance 300

d. Prepaid Insurance 1,800
 Cash 1,800

ANSWER: a

POINTS: 1

DIFFICULTY: Moderate

LEARNING OBJECTIVES: ACCT.WHAL.16.3.5 - LO: 3.5

NATIONAL STANDARDS: United States - BUSPORG: Analytic

LOCAL STANDARDS: United States - OH - Default City - AICPA: FN-Measurement

KEYWORDS: Bloom's: Analyzing

66. Accrued revenues

a. have been earned and collected, but not yet recorded.

b. have been collected, but not yet earned or recorded.

c. have been collected and recorded.

d. have been earned, but not yet collected or recorded.

ANSWER: d

POINTS: 1

DIFFICULTY: Easy

LEARNING OBJECTIVES: ACCT.WHAL.16.3.5 - LO: 3.5

NATIONAL STANDARDS: United States - BUSPROG: Reflective Thinking - BUSPROG: Analytic

LOCAL STANDARDS: United States - OH - Default City - AICPA: FN-Decision Modeling

KEYWORDS: Bloom's: Remembering

Chapter 3: Review of a Company's Accounting System

67. The Nathan's Company rents numerous properties throughout the year. Nathan's pays rents in advance in some cases, and in other cases rents are paid after the rental period expires. The following data are included in Nathan's December 31 balance sheets:

	<u>2015</u>	<u>2016</u>
Prepaid Rents	\$70,000	\$30,000
Rent Payable	\$50,000	\$35,000

During 2016, Nathan paid \$200,000 in rentals. In its accrual basis income statement for the year ended December 31, 2016, Nathan should report rent expense of:

- a. \$145,000
- b. \$175,000
- c. \$200,000
- d. \$225,000

ANSWER: d

POINTS: 1

DIFFICULTY: Challenging

LEARNING OBJECTIVES: ACCT.WHAL.16.3.5 - LO: 3.5

NATIONAL STANDARDS: United States - BUSPORG: Analytic

LOCAL STANDARDS: United States - OH - Default City - AICPA: FN-Measurement

KEYWORDS: Bloom's: Analyzing

68. The accountant failed to make the adjusting entry to record the depreciation for the year. This error would cause

- a. an overstatement of assets.
- b. an overstatement of expenses.
- c. an understatement of liabilities.
- d. an understatement of shareholders' equity.

ANSWER: a

POINTS: 1

DIFFICULTY: Challenging

LEARNING OBJECTIVES: ACCT.WHAL.16.3.5 - LO: 3.5

NATIONAL STANDARDS: United States - BUSPORG: Analytic

LOCAL STANDARDS: United States - OH - Default City - AICPA: FN-Measurement

KEYWORDS: Bloom's: Analyzing

Chapter 3: Review of a Company's Accounting System

69. Which of the following is **not** a type of adjusting entry?

- a. depreciation of long-term physical assets
- b. allocation of unearned revenue
- c. correction of an error in the general journal
- d. recording of accrued revenue

ANSWER: c

POINTS: 1

DIFFICULTY: Moderate

LEARNING OBJECTIVES: ACCT.WHAL.16.3.5 - LO: 3.5

NATIONAL STANDARDS: United States - BUSPROG: Reflective Thinking - BUSPROG: Analytic

LOCAL STANDARDS: United States - OH - Default City - AICPA: FN-Decision Modeling

KEYWORDS: Bloom's: Remembering

70. The accountant failed to make the adjusting entry to record the amount of interest owed on a note to the bank at the end of the year. This error would cause an overstatement of

- a. assets.
- b. expenses.
- c. liabilities.
- d. shareholders' equity.

ANSWER: d

POINTS: 1

DIFFICULTY: Moderate

LEARNING OBJECTIVES: ACCT.WHAL.16.3.5 - LO: 3.5

NATIONAL STANDARDS: United States - BUSPROG: Reflective Thinking - BUSPROG: Analytic

LOCAL STANDARDS: United States - OH - Default City - AICPA: FN-Decision Modeling

KEYWORDS: Bloom's: Remembering

71. Prior to preparing the organization's financial statements, the accountant prepares

- a. a balance sheet.
- b. a post-closing trial balance.
- c. an adjusted trial balance.
- d. a closed trial balance.

ANSWER: c

POINTS: 1

DIFFICULTY: Easy

LEARNING OBJECTIVES: ACCT.WHAL.16.3.6 - LO: 3.6

NATIONAL STANDARDS: United States - BUSPROG: Reflective Thinking - BUSPROG: Analytic

LOCAL STANDARDS: United States - OH - Default City - AICPA: FN-Decision Modeling

KEYWORDS: Bloom's: Remembering

Chapter 3: Review of a Company's Accounting System

72. The financial statements are the responsibility of the
- auditors.
 - management.
 - independent certified accountants.
 - Public Accounting Oversight Board.

ANSWER: b

POINTS: 1

DIFFICULTY: Easy

LEARNING OBJECTIVES: ACCT.WHAL.16.3.6 - LO: 3.6

NATIONAL STANDARDS: United States - BUSPROG: Reflective Thinking - BUSPROG: Analytic

LOCAL STANDARDS: United States - OH - Default City - AICPA: FN-Decision Modeling

KEYWORDS: Bloom's: Remembering

73. The accountant failed to make the adjusting entry to record the unpaid wages of its employees as of December 31. This error will cause
- an overstatement of assets, liabilities, and shareholders' equity.
 - an understatement of expenses, liabilities, and shareholders' equity.
 - an understatement of liabilities and an overstatement of shareholders' equity.
 - an understatement of assets and liabilities.

ANSWER: c

POINTS: 1

DIFFICULTY: Challenging

LEARNING OBJECTIVES: ACCT.WHAL.16.3.6 - LO: 3.6

NATIONAL STANDARDS: United States - BUSPROG: Analytic

LOCAL STANDARDS: United States - OH - Default City - AICPA: FN-Measurement

KEYWORDS: Bloom's: Analyzing

74. Operating expenses would **not** include
- cost of goods sold.
 - salaries expenses.
 - insurance expenses.
 - depreciation expenses.

ANSWER: a

POINTS: 1

DIFFICULTY: Easy

LEARNING OBJECTIVES: ACCT.WHAL.16.3.6 - LO: 3.6

NATIONAL STANDARDS: United States - BUSPROG: Reflective Thinking - BUSPROG: Analytic

LOCAL STANDARDS: United States - OH - Default City - AICPA: FN-Decision Modeling

KEYWORDS: Bloom's: Remembering

Chapter 3: Review of a Company's Accounting System

75. The purpose of closing entries is to
- update a periodic inventory account for credit sales.
 - update the retained earnings account on a daily basis.
 - apportion prepaid expenses and unearned revenues to bring the accounts up to date.
 - reduce all temporary accounts to zero.

ANSWER: d

POINTS: 1

DIFFICULTY: Moderate

LEARNING OBJECTIVES: ACCT.WHAL.16.3.7 - LO: 3.7

NATIONAL STANDARDS: United States - BUSPROG: Reflective Thinking - BUSPROG: Analytic

LOCAL STANDARDS: United States - OH - Default City - AICPA: FN-Decision Modeling

KEYWORDS: Bloom's: Remembering

76. Which of the following accounts would **not** be closed to Income Summary during the year-end closing process?
- Loss on Sale of Land
 - Prepaid Rent
 - Freight-In
 - Sales Discounts

ANSWER: b

POINTS: 1

DIFFICULTY: Easy

LEARNING OBJECTIVES: ACCT.WHAL.16.3.7 - LO: 3.7

NATIONAL STANDARDS: United States - BUSPROG: Reflective Thinking - BUSPROG: Analytic

LOCAL STANDARDS: United States - OH - Default City - AICPA: FN-Decision Modeling

KEYWORDS: Bloom's: Remembering

77. With closing entries, you would expect to find all of the following **except**
- debit Unearned Rent; credit Income Summary.
 - debit Sales Revenue; credit Income Summary.
 - debit Retained Earnings; credit Dividends.
 - debit Income Summary; credit Loss on Sale of Land.

ANSWER: a

POINTS: 1

DIFFICULTY: Easy

LEARNING OBJECTIVES: ACCT.WHAL.16.3.7 - LO: 3.7

NATIONAL STANDARDS: United States - BUSPROG: Reflective Thinking - BUSPROG: Analytic

LOCAL STANDARDS: United States - OH - Default City - AICPA: FN-Decision Modeling

KEYWORDS: Bloom's: Remembering

Chapter 3: Review of a Company's Accounting System

78. Where would the closing entries be found for a particular company?

- a. financial statements
- b. general journal
- c. trial balance
- d. journal entries

ANSWER: b

POINTS: 1

DIFFICULTY: Easy

LEARNING OBJECTIVES: ACCT.WHAL.16.3.7 - LO: 3.7

NATIONAL STANDARDS: United States - BUSPROG: Reflective Thinking - BUSPROG: Analytic

LOCAL STANDARDS: United States - OH - Default City - AICPA: FN-Decision Modeling

KEYWORDS: Bloom's: Remembering

79. Which of the following is a contra account?

- a. Unearned Rental Revenue
- b. Sales Discounts Taken
- c. Bad Debts Expense
- d. Depreciation Expense

ANSWER: b

POINTS: 1

DIFFICULTY: Easy

LEARNING OBJECTIVES: ACCT.WHAL.16.3.7 - LO: 3.7

NATIONAL STANDARDS: United States - BUSPROG: Reflective Thinking - BUSPROG: Analytic

LOCAL STANDARDS: United States - OH - Default City - AICPA: FN-Decision Modeling

KEYWORDS: Bloom's: Remembering

80. Which of the following statements regarding a post-closing trial balance is **false**?

- a. Post-closing trial balances only contain permanent accounts.
- b. Balances in a post-closing trial balance cannot be used to calculate current income.
- c. Post-closing trial balances only contain temporary accounts.
- d. A post-closing trial balance verifies that the total of the debit balances equals the total of the credit balances of all permanent accounts in the general ledger.

ANSWER: c

POINTS: 1

DIFFICULTY: Easy

LEARNING OBJECTIVES: ACCT.WHAL.16.3.7 - LO: 3.7

NATIONAL STANDARDS: United States - BUSPROG: Reflective Thinking - BUSPROG: Analytic

LOCAL STANDARDS: United States - OH - Default City - AICPA: FN-Decision Modeling

KEYWORDS: Bloom's: Remembering

Chapter 3: Review of a Company's Accounting System

81. Which of the following is a purchase return?

- a. A company agrees to keep damaged inventory and receives a refund from the supplier.
- b. A customer agrees to keep damaged inventory and receives a partial refund of the selling price.
- c. A company returns inventory to the supplier and receives a refund of the purchase price.
- d. A customer returns inventory to a company and receives a refund of the purchase price.

ANSWER: c

POINTS: 1

DIFFICULTY: Easy

LEARNING OBJECTIVES: ACCT.WHAL.16.3.7 - LO: 3.7

NATIONAL STANDARDS: United States - BUSPROG: Reflective Thinking - BUSPROG: Analytic

LOCAL STANDARDS: United States - OH - Default City - AICPA: FN-Decision Modeling

KEYWORDS: Bloom's: Remembering

82. Which of the following is a sales return?

- a. A supplier agrees to take back merchandise and provides a full refund.
- b. A customer returns merchandise for a refund.
- c. A customer keeps damaged merchandise and the company returns a portion of the selling price.
- d. A customer pays within the discount period.

ANSWER: b

POINTS: 1

DIFFICULTY: Easy

LEARNING OBJECTIVES: ACCT.WHAL.16.3.7 - LO: 3.7

NATIONAL STANDARDS: United States - BUSPROG: Reflective Thinking - BUSPROG: Analytic

LOCAL STANDARDS: United States - OH - Default City - AICPA: FN-Decision Modeling

KEYWORDS: Bloom's: Remembering

83. If the credit subtotal is greater than the debit subtotal in the Income Statement columns of a worksheet, the difference

- a. indicates that the company incurred an operating loss during the period.
- b. could represent payment of dividends by the entity during the period.
- c. indicates that an error has been made in the accounting process.
- d. indicates that the company earned a net income during the period.

ANSWER: d

POINTS: 1

DIFFICULTY: Challenging

LEARNING OBJECTIVES: ACCT.WHAL.16.3.8 - LO: 3.8

NATIONAL STANDARDS: United States - BUSPROG: Reflective Thinking - BUSPROG: Analytic

LOCAL STANDARDS: United States - OH - Default City - AICPA: FN-Decision Modeling

KEYWORDS: Bloom's: Understanding

Chapter 3: Review of a Company's Accounting System

84. On a worksheet, which account will **not** be extended to the Balance Sheet columns?

- a. Unearned Rent
- b. Inventory, January 1
- c. Capital Stock
- d. Accumulated Depreciation

ANSWER: b

POINTS: 1

DIFFICULTY: Moderate

LEARNING OBJECTIVES: ACCT.WHAL.16.3.8 - LO: 3.8

NATIONAL STANDARDS: United States - BUSPROG: Reflective Thinking - BUSPROG: Analytic

LOCAL STANDARDS: United States - OH - Default City - AICPA: FN-Decision Modeling

KEYWORDS: Bloom's: Remembering

85. Which statement is true?

- a. In the Income Statement columns of a worksheet, if there is net income, it must be added to the credit column to make the two columns balance.
- b. In the Retained Earnings columns of a worksheet, if there is a loss, it will be entered in the credit column to make the two columns balance.
- c. In the Income Statement columns of a worksheet, if there is a net loss, it must be added to the credit column to make the two columns balance.
- d. In the Retained Earnings columns of a worksheet, if there is net income, it will be entered in the debit column to make the two columns balance.

ANSWER: c

POINTS: 1

DIFFICULTY: Challenging

LEARNING OBJECTIVES: ACCT.WHAL.16.3.8 - LO: 3.8

NATIONAL STANDARDS: United States - BUSPROG: Reflective Thinking - BUSPROG: Analytic

LOCAL STANDARDS: United States - OH - Default City - AICPA: FN-Decision Modeling

KEYWORDS: Bloom's: Understanding

86. The worksheet has a debit and credit column for all of the following **except** the

- a. trial balance.
- b. adjusted trial balance.
- c. statement of cash flows.
- d. income statement.

ANSWER: c

POINTS: 1

DIFFICULTY: Easy

LEARNING OBJECTIVES: ACCT.WHAL.16.3.8 - LO: 3.8

NATIONAL STANDARDS: United States - BUSPROG: Reflective Thinking - BUSPROG: Analytic

LOCAL STANDARDS: United States - OH - Default City - AICPA: FN-Decision Modeling

KEYWORDS: Bloom's: Remembering

Chapter 3: Review of a Company's Accounting System

87. Which of the following is **not** a reason why a company first prepares a worksheet?
- simplify recording of adjusting and closing entries in the general journal
 - substitute for the trial balance
 - make it easier to prepare financial statements
 - minimize errors

ANSWER: b

POINTS: 1

DIFFICULTY: Easy

LEARNING OBJECTIVES: ACCT.WHAL.16.3.8 - LO: 3.8

NATIONAL STANDARDS: United States - BUSPROG: Reflective Thinking - BUSPROG: Analytic

LOCAL STANDARDS: United States - OH - Default City - AICPA: FN-Decision Modeling

KEYWORDS: Bloom's: Remembering

88. Step two in completing a worksheet is to
- prepare the trial balance
 - subtotal income debit and credit columns
 - combine the trial balance amount of each account with the adjustments
 - analyze accounts

ANSWER: d

POINTS: 1

DIFFICULTY: Moderate

LEARNING OBJECTIVES: ACCT.WHAL.16.3.8 - LO: 3.8

NATIONAL STANDARDS: United States - BUSPROG: Reflective Thinking - BUSPROG: Analytic

LOCAL STANDARDS: United States - OH - Default City - AICPA: FN-Decision Modeling

KEYWORDS: Bloom's: Understanding

89. How many steps are there in completing a worksheet?
- three
 - four
 - five
 - Six

ANSWER: c

POINTS: 1

DIFFICULTY: Easy

LEARNING OBJECTIVES: ACCT.WHAL.16.3.8 - LO: 3.8

NATIONAL STANDARDS: United States - BUSPROG: Reflective Thinking - BUSPROG: Analytic

LOCAL STANDARDS: United States - OH - Default City - AICPA: FN-Decision Modeling

KEYWORDS: Bloom's: Remembering

Chapter 3: Review of a Company's Accounting System

90. On a worksheet, the balance in the accumulated depreciation account should be extended to which column?
- Balance Sheet debit column
 - Balance Sheet credit column
 - Income Statement debit column
 - Income Statement credit column

ANSWER: b

POINTS: 1

DIFFICULTY: Moderate

LEARNING OBJECTIVES: ACCT.WHAL.16.3.8 - LO: 3.8

NATIONAL STANDARDS: United States - BUSPROG: Reflective Thinking - BUSPROG: Analytic

LOCAL STANDARDS: United States - OH - Default City - AICPA: FN-Decision Modeling

KEYWORDS: Bloom's: Remembering

91. The Orange Company made year-end adjusting entries affecting each of the following accounts: Office Salaries Payable (credited); Depreciation Expense (debited); Unearned Rental Revenue (debited); and Prepaid Insurance (credited). Which account is likely to appear in Orange's reversing entries?
- Office Salaries Payable
 - Depreciation Expense
 - Unearned Rental Revenue
 - Prepaid Insurance

ANSWER: a

POINTS: 1

DIFFICULTY: Challenging

LEARNING OBJECTIVES: ACCT.WHAL.16.3.9 - LO: 3.9

NATIONAL STANDARDS: United States - BUSPROG: Reflective Thinking - BUSPROG: Analytic

LOCAL STANDARDS: United States - OH - Default City - AICPA: FN-Decision Modeling

KEYWORDS: Bloom's: Understanding

Chapter 3: Review of a Company's Accounting System

92. On October 1, 2015, Jacob's Beach Umbrellas borrowed \$5,000 on a 12%, one-year note payable. Interest was payable semiannually. A correct adjusting entry was made on December 31, 2015, and a correct reversing entry was made on January 1, 2016. The entry that should be made on March 31, 2016, is

- a. Interest Payable 300
Cash 300
- b. Interest Expense 150
Interest Payable 150
Cash 300
- c. Interest Expense 150
Cash 150
- d. Interest Expense 300
Cash 300

ANSWER: d

POINTS: 1

DIFFICULTY: Challenging

LEARNING OBJECTIVES: ACCT.WHAL.16.3.9 - LO: 3.9

NATIONAL STANDARDS: United States - BUSPROG: Analytic

LOCAL STANDARDS: United States - OH - Default City - AICPA: FN-Measurement

KEYWORDS: Bloom's: Analyzing

93. Which of the following adjusting entries would **not** be reversed in the following accounting period?

- a. an entry that recognized an accrued expense of the current period
- b. an entry that allocated the expired portion of a long-lived asset to the current year's income statement
- c. an entry that transferred a portion of a revenue account to a liability account
- d. an entry that recognized an accrued revenue earned during the current period

ANSWER: b

POINTS: 1

DIFFICULTY: Moderate

LEARNING OBJECTIVES: ACCT.WHAL.16.3.9 - LO: 3.9

NATIONAL STANDARDS: United States - BUSPROG: Reflective Thinking - BUSPROG: Analytic

LOCAL STANDARDS: United States - OH - Default City - AICPA: FN-Decision Modeling

KEYWORDS: Bloom's: Remembering

Chapter 3: Review of a Company's Accounting System

94. The Yellow Canoe Company made year-end adjusting entries affecting each of the following accounts: Interest Revenue (credited); Depreciation Expense (debited); Unearned Rental Revenue (debited); and Prepaid Insurance (credited). Which account is likely to appear in Yellow Canoe's reversing entries?
- Prepaid Insurance
 - Interest Revenue
 - Depreciation Expense
 - None of these answer choices is correct.

ANSWER: b

POINTS: 1

DIFFICULTY: Challenging

LEARNING OBJECTIVES: ACCT.WHAL.16.3.9 - LO: 3.9

NATIONAL STANDARDS: United States - BUSPROG: Reflective Thinking - BUSPROG: Analytic

LOCAL STANDARDS: United States - OH - Default City - AICPA: FN-Decision Modeling

KEYWORDS: Bloom's: Understanding

95. Which of the following adjusting entries would be the most likely to be reversed?
- Depreciation Expense 1,500
Accumulated Depreciation 1,500
 - Unearned Rent 700
Rent Revenue 700
 - Insurance Expense 800
Prepaid Insurance 800
 - Income Tax Expense 950
Income Taxes Payable 950

ANSWER: d

POINTS: 1

DIFFICULTY: Challenging

LEARNING OBJECTIVES: ACCT.WHAL.16.3.9 - LO: 3.9

NATIONAL STANDARDS: United States - BUSPROG: Reflective Thinking - BUSPROG: Analytic

LOCAL STANDARDS: United States - OH - Default City - AICPA: FN-Decision Modeling

KEYWORDS: Bloom's: Remembering

Chapter 3: Review of a Company's Accounting System

96. Which of the following is the correct reversing entry?

- a. Depreciation Expense 1,550
 Accumulated Depreciation 1,550
- b. Interest Revenue 2,350
 Interest Receivable 2,350
- c. Salary Expense 1,980
 Salary Payable 1,980
- d. Income Tax Expense 2,500
 Income Tax Payable 2,500

ANSWER: b

POINTS: 1

DIFFICULTY: Easy

LEARNING OBJECTIVES: ACCT.WHAL.16.3.9 - LO: 3.9

NATIONAL STANDARDS: United States - BUSPROG: Reflective Thinking - BUSPROG: Analytic

LOCAL STANDARDS: United States - OH - Default City - AICPA: FN-Decision Modeling

KEYWORDS: Bloom's: Remembering

97. Which of the following adjusting entries would be the most likely be reversed?

- a. Depreciation Expense 500
 Accumulated Depreciation 500
- b. Salary Expense 1,980
 Salary Payable 1,980
- c. Insurance Expense 500
 Prepaid Insurance 500
- d. Unearned Subscriptions 2,000
 Subscription Revenue 2,000

ANSWER: b

POINTS: 1

DIFFICULTY: Easy

LEARNING OBJECTIVES: ACCT.WHAL.16.3.9 - LO: 3.9

NATIONAL STANDARDS: United States - BUSPROG: Reflective Thinking - BUSPROG: Analytic

LOCAL STANDARDS: United States - OH - Default City - AICPA: FN-Decision Modeling

KEYWORDS: Bloom's: Remembering

Chapter 3: Review of a Company's Accounting System

98. Reversing entries should **not** be made for
- adjusting entries related to estimated items such as depreciation.
 - adjusting entries that create accrued revenues to be collected in the next accounting period.
 - adjusting entries that create accrued expenses to be paid in the next accounting period.
 - adjusting entries related to prepayments of costs initially recorded as expenses.

ANSWER: a

POINTS: 1

DIFFICULTY: Easy

LEARNING OBJECTIVES: ACCT.WHAL.16.3.9 - LO: 3.9

NATIONAL STANDARDS: United States - BUSPROG: Reflective Thinking - BUSPROG: Analytic

LOCAL STANDARDS: United States - OH - Default City - AICPA: FN-Decision Modeling

KEYWORDS: Bloom's: Remembering

99. Reversing entries should **not** be made for which of the following?
- Adjusting entries that defer costs by recording them as prepaid expenses.
 - Adjusting entries to expenses that are to be paid in the next period.
 - Adjusting entries to accrue revenue to be collected in the next period.
 - Adjusting entries related to estimates.

ANSWER: d

POINTS: 1

DIFFICULTY: Moderate

LEARNING OBJECTIVES: ACCT.WHAL.16.3.9 - LO: 3.9

NATIONAL STANDARDS: United States - BUSPROG: Reflective Thinking - BUSPROG: Analytic

LOCAL STANDARDS: United States - OH - Default City - AICPA: FN-Decision Modeling

KEYWORDS: Bloom's: Understanding

100. A company usually makes a reversing entry
- on the first day of the next accounting period.
 - at the end of the prior accounting period.
 - on the second day of the next accounting period.
 - on the last day of the next accounting period.

ANSWER: a

POINTS: 1

DIFFICULTY: Easy

LEARNING OBJECTIVES: ACCT.WHAL.16.3.9 - LO: 3.9

NATIONAL STANDARDS: United States - BUSPROG: Reflective Thinking - BUSPROG: Analytic

LOCAL STANDARDS: United States - OH - Default City - AICPA: FN-Decision Modeling

KEYWORDS: Bloom's: Remembering

Chapter 3: Review of a Company's Accounting System

101. The Michael Company has an accounts receivable account in its general ledger, and it also maintains a subsidiary ledger that contains an individual account for each of its customers who buys merchandise on credit. Which of the following statements about the general ledger account is **not** true?
- The general ledger account is also called a contra account.
 - The balance of the general ledger account should agree with the total of all of the accounts in the subsidiary ledger.
 - The general ledger account is called a permanent account.
 - The general ledger account is properly referred to as a control account.

ANSWER: a

POINTS: 1

DIFFICULTY: Moderate

LEARNING OBJECTIVES: ACCT.WHAL.16.3.1 - LO: 3.1

NATIONAL STANDARDS: United States - BUSPROG: Reflective Thinking - BUSPROG: Analytic

LOCAL STANDARDS: United States - OH - Default City - AICPA: FN-Decision Modeling

KEYWORDS: Bloom's: Understanding

102. When reconciling its accounts, Boris Company found the accounts receivable general ledger account had a balance of \$35,000, and the accounts receivable subsidiary ledger account balances totaled \$33,000. The most likely reason for this difference was
- a sale to a customer was recorded twice in the subsidiary ledger.
 - cash received from a customer was posted twice to the subsidiary ledger.
 - a sale to a customer was not posted to the general ledger.
 - cash received from a customer was recorded twice in the general ledger.

ANSWER: b

POINTS: 1

DIFFICULTY: Moderate

LEARNING OBJECTIVES: ACCT.WHAL.16.3.1 - LO: 3.1

NATIONAL STANDARDS: United States - BUSPROG: Reflective Thinking - BUSPROG: Analytic

LOCAL STANDARDS: United States - OH - Default City - AICPA: FN-Decision Modeling

KEYWORDS: Bloom's: Remembering

Chapter 3: Review of a Company's Accounting System

103. An organization will typically utilize a subsidiary ledger to
- make sure all debits equal credits.
 - make it easier to handle cash received from customers.
 - keep customer accounts up to date.
 - record customer credit sales outside of the normal double entry system.

ANSWER: c

POINTS: 1

DIFFICULTY: Easy

LEARNING OBJECTIVES: ACCT.WHAL.16.3.1 - LO: 3.1

NATIONAL STANDARDS: United States - BUSPROG: Reflective Thinking - BUSPROG: Analytic

LOCAL STANDARDS: United States - OH - Default City - AICPA: FN-Decision Modeling

KEYWORDS: Bloom's: Remembering

104. The total of the individual customer account balances should equal the balance in Accounts Receivable, which is the
- control account.
 - periodic account.
 - nominal account.
 - contra account.

ANSWER: a

POINTS: 1

DIFFICULTY: Easy

LEARNING OBJECTIVES: ACCT.WHAL.16.3.1 - LO: 3.1

NATIONAL STANDARDS: United States - BUSPROG: Reflective Thinking - BUSPROG: Analytic

LOCAL STANDARDS: United States - OH - Default City - AICPA: FN-Decision Modeling

KEYWORDS: Bloom's: Remembering

105. Which of the following transactions would be recorded in a sales journal of the type illustrated in the text?
- customer return of merchandise originally bought on credit
 - customer purchase of merchandise for cash
 - sale by a used car dealer of part of the property surrounding his display lot
 - customer purchase of merchandise on credit terms

ANSWER: d

POINTS: 1

DIFFICULTY: Easy

LEARNING OBJECTIVES: ACCT.WHAL.16.3.1 - LO: 3.1

NATIONAL STANDARDS: United States - BUSPROG: Reflective Thinking - BUSPROG: Analytic

LOCAL STANDARDS: United States - OH - Default City - AICPA: FN-Decision Modeling

KEYWORDS: Bloom's: Remembering

Chapter 3: Review of a Company's Accounting System

106. Marlin Company has all of the special journals that were described in your text (other than the voucher register) as a part of its accounting system. Which of the following journal entries would therefore be recorded in Marlin's general journal?

- a. an entry to record the sale of merchandise on credit
- b. an entry to record the purchase of merchandise on credit
- c. an entry to record the return of defective purchased merchandise for credit
- d. an entry to record a cash purchase of merchandise

ANSWER: c

POINTS: 1

DIFFICULTY: Moderate

LEARNING OBJECTIVES: ACCT.WHAL.16.3.1 - LO: 3.1

NATIONAL STANDARDS: United States - BUSPROG: Reflective Thinking - BUSPROG: Analytic

LOCAL STANDARDS: United States - OH - Default City - AICPA: FN-Decision Modeling

KEYWORDS: Bloom's: Remembering

107. Which statement is true?

- a. All purchases should be recorded in a purchases journal.
- b. Closing and reversing entries will be found in the sales journal.
- c. Returned merchandise from a customer should be entered in the sales journal.
- d. All cash sales should be recorded in the cash receipts journal.

ANSWER: d

POINTS: 1

DIFFICULTY: Moderate

LEARNING OBJECTIVES: ACCT.WHAL.16.3.1 - LO: 3.1

NATIONAL STANDARDS: United States - BUSPROG: Reflective Thinking - BUSPROG: Analytic

LOCAL STANDARDS: United States - OH - Default City - AICPA: FN-Decision Modeling

KEYWORDS: Bloom's: Remembering

108. A subsidiary ledger is

- a. a journal used by a company to record its transactions with a similar characteristic.
- b. a group of accounts, all of which relate to one specific company activity.
- c. the entire group of accounts for a company.
- d. a record of all the daily activities.

ANSWER: b

POINTS: 1

DIFFICULTY: Easy

LEARNING OBJECTIVES: ACCT.WHAL.16.3.1 - LO: 3.1

NATIONAL STANDARDS: United States - BUSPROG: Reflective Thinking - BUSPROG: Analytic

LOCAL STANDARDS: United States - OH - Default City - AICPA: FN-Decision Modeling

KEYWORDS: Bloom's: Remembering

Chapter 3: Review of a Company's Accounting System

109. Which of the following is a reason why companies use special journals?
- to reduce the time needed to complete the various accounting activities
 - to provide for a chronological listing of similar transactions
 - to divide the accounting task
 - All of the above are reasons why companies use special journals.

ANSWER: d

POINTS: 1

DIFFICULTY: Easy

LEARNING OBJECTIVES: ACCT.WHAL.16.3.1 - LO: 3.1

NATIONAL STANDARDS: United States - BUSPROG: Reflective Thinking - BUSPROG: Analytic

LOCAL STANDARDS: United States - OH - Default City - AICPA: FN-Decision Modeling

KEYWORDS: Bloom's: Remembering

110. Which statement is **false**?
- The general journal is still a necessity, even when special journals are used.
 - If a cash payments journal is in use, postings are usually made only at the end of the month.
 - All transactions involving the receipt of cash are recorded in the cash receipts journal.
 - A purchase of a desk calculator for the office should not be recorded in the purchases journal.

ANSWER: b

POINTS: 1

DIFFICULTY: Moderate

LEARNING OBJECTIVES: ACCT.WHAL.16.3.1 - LO: 3.1

NATIONAL STANDARDS: United States - BUSPROG: Reflective Thinking - BUSPROG: Analytic

LOCAL STANDARDS: United States - OH - Default City - AICPA: FN-Decision Modeling

KEYWORDS: Bloom's: Understanding

111. Long, Inc. uses the accrual basis of accounting. Long's rent expense account had a balance of \$18,000 at the end of the year. The prepaid rent account had a balance of \$5,000 at the beginning of the year and a balance of \$9,000 at the end of the year. How much cash was paid for rent during the year?
- \$ 5,000
 - \$9,000
 - \$18,000
 - \$22,000

ANSWER: d

POINTS: 1

DIFFICULTY: Challenging

LEARNING OBJECTIVES: ACCT.WHAL.16.3.10 - LO: 3.11

NATIONAL STANDARDS: United States - BUSPROG: Analytic

LOCAL STANDARDS: United States - OH - Default City - AICPA: FN-Decision Modeling

KEYWORDS: Bloom's: Remembering

Chapter 3: Review of a Company's Accounting System

112. Walker Company uses the accrual basis of accounting. Walker Company's wages expense account had a \$610,000 balance at the end of the year. The wages payable account had a \$23,000 balance at the beginning of the year and a \$45,000 balance at the end of the year. How much cash was paid for wages during the year?

- a. \$588,000
- b. \$610,000
- c. \$632,000
- d. \$555,000

ANSWER: a

POINTS: 1

DIFFICULTY: Challenging

LEARNING OBJECTIVES: ACCT.WHAL.16.3.10 - LO: 3.11

NATIONAL STANDARDS: United States - BUSPORG: Analytic

LOCAL STANDARDS: United States - OH - Default City - AICPA: FN-Decision Modeling

KEYWORDS: Bloom's: Analyzing

113. Slater Company uses the cash basis of accounting. Slater Company collected \$950,000 from its customers during 2015. Customers owed Slater \$150,000 of accounts receivable at the beginning of 2015, and \$190,000 of accounts receivable at the end of 2015. What is Slater's sales revenue for 2015 under the accrual basis of accounting?

- a. \$810,000
- b. \$950,000
- c. \$990,000
- d. \$940,000

ANSWER: c

POINTS: 1

DIFFICULTY: Challenging

LEARNING OBJECTIVES: ACCT.WHAL.16.3.10 - LO: 3.11

NATIONAL STANDARDS: United States - BUSPORG: Analytic

LOCAL STANDARDS: United States - OH - Default City - AICPA: FN-Measurement

KEYWORDS: Bloom's: Analyzing

Chapter 3: Review of a Company's Accounting System

114. Merry Company uses the cash basis of accounting. Merry Company made \$600,000 in payments to its suppliers during the year. Merry's beginning inventory was \$20,000, and its ending inventory was \$35,000. In addition, Merry had a beginning accounts payable of \$40,000 and an ending accounts payable of \$70,000. What is Merry's cost of goods sold under the accrual basis of accounting?
- a. \$585,000
 - b. \$600,000
 - c. \$615,000
 - d. \$625,000

ANSWER: c
POINTS: 1
DIFFICULTY: Challenging
LEARNING OBJECTIVES: ACCT.WHAL.16.3.10 - LO: 3.11
NATIONAL STANDARDS: United States - BUSPORG: Analytic
LOCAL STANDARDS: United States - OH - Default City - AICPA: FN-Measurement
KEYWORDS: Bloom's: Analyzing

- 115 Joseph, Inc. uses the accrual basis of accounting. Joseph's insurance expense account had a \$23,000 balance at the end of the year. The prepaid insurance account had a \$6,000 balance at the beginning of the year and a \$3,000 balance at the end of the year. How much cash was paid for insurance during the year?
- a. \$4,000
 - b. \$20,000
 - c. \$21,000
 - d. \$29,000

ANSWER: b
POINTS: 1
DIFFICULTY: Challenging
LEARNING OBJECTIVES: ACCT.WHAL.16.3.10 - LO: 3.11
NATIONAL STANDARDS: United States - BUSPORG: Analytic
LOCAL STANDARDS: United States - OH - Default City - AICPA: FN-Measurement
KEYWORDS: Bloom's: Analyzing

Chapter 3: Review of a Company's Accounting System

116 Little Company uses the cash basis of accounting. Little Company made \$28,000 in payments to its suppliers during the year. Little's beginning inventory was \$2,000, and its ending inventory was \$1,000. In addition, Little had a beginning accounts payable of \$7,000 and an ending accounts payable balance of \$4,000. What is Little's cost of goods sold under the accrual basis of accounting?

- a. \$26,000
- b. \$30,000
- c. \$32,000
- d. \$37,000

ANSWER: a

POINTS: 1

DIFFICULTY: Challenging

LEARNING OBJECTIVES: ACCT.WHAL.16.3.10 - LO: 3.11

NATIONAL STANDARDS: United States - BUSPORG: Analytic

LOCAL STANDARDS: United States - OH - Default City - AICPA: FN-Measurement

KEYWORDS: Bloom's: Analyzing

117. Under cash-basis accounting,

- a. revenue is recorded when earned.
- b. revenue is recorded when cash is received.
- c. expenses are recorded when incurred.
- d. expenses are recorded when due.

ANSWER: b

POINTS: 1

DIFFICULTY: Easy

LEARNING OBJECTIVES: ACCT.WHAL.16.3.10 - LO: 3.11

NATIONAL STANDARDS: United States - BUSPROG: Reflective Thinking - BUSPROG: Analytic

LOCAL STANDARDS: United States - OH - Default City - AICPA: FN-Decision Modeling

KEYWORDS: Bloom's: Remembering

118. When a company uses cash-basis accounting, it frequently does **not** keep up with

- a. accounts receivable.
- b. accounts payable.
- c. prepaid expenses.
- d. The company keeps up with all of the above.

ANSWER: d

POINTS: 1

DIFFICULTY: Easy

LEARNING OBJECTIVES: ACCT.WHAL.16.3.10 - LO: 3.11

NATIONAL STANDARDS: United States - BUSPROG: Reflective Thinking - BUSPROG: Analytic

LOCAL STANDARDS: United States - OH - Default City - AICPA: FN-Decision Modeling

KEYWORDS: Bloom's: Remembering

Chapter 3: Review of a Company's Accounting System

119. Cash-basis accounting as a basis for preparing financial statements is
- allowed under GAAP.
 - not allowed under GAAP.
 - preferred under GAAP.
 - used by most companies.

ANSWER: b

POINTS: 1

DIFFICULTY: Easy

LEARNING OBJECTIVES: ACCT.WHAL.16.3.10 - LO: 3.11

NATIONAL STANDARDS: United States - BUSPROG: Reflective Thinking - BUSPROG: Analytic

LOCAL STANDARDS: United States - OH - Default City - AICPA: FN-Decision Modeling

KEYWORDS: Bloom's: Remembering

120. Several accounts are listed below:

- Purchases Returns and Allowances
- Sales Discounts
- Wages Expense
- Allowance for Doubtful Accounts
- Unearned Rent
- Income Taxes Payable
- Dividends
- Interest Revenue
- Discount on Bonds Payable
- Common Stock
- Additional Paid in Capital-Common Stock
- Inventory

Required:

List the accounts above that would normally have a credit balance.

ANSWER: a, d, e, f, h, j, k

POINTS: 1

DIFFICULTY: Challenging

LEARNING OBJECTIVES: ACCT.WHAL.16.3.1 - LO: 3.1

NATIONAL STANDARDS: United States - BUSPROG: Reflective Thinking - BUSPROG: Analytic

LOCAL STANDARDS: United States - OH - Default City - AICPA: FN-Decision Modeling

KEYWORDS: Bloom's: Understanding

Chapter 3: Review of a Company's Accounting System

121. Several accounts are listed below:

- a. Purchases Returns and Allowances
- b. Sales Discounts
- c. Wages Expense
- d. Allowance for Doubtful Accounts
- e. Unearned Rent
- f. Income Taxes Payable
- g. Dividends
- h. Interest Revenue
- i. Discount on Bonds Payable
- j. Common Stock
- k. Additional Paid in Capital-Common Stock
- l. Inventory

Required:

List the accounts above that would normally have a debit balance.

ANSWER: b, c, g, i, l

POINTS: 1

DIFFICULTY: Challenging

LEARNING OBJECTIVES: ACCT.WHAL.16.3.1 - LO: 3.1

NATIONAL STANDARDS: United States - BUSPROG: Reflective Thinking - BUSPROG: Analytic

LOCAL STANDARDS: United States - OH - Default City - AICPA: FN-Decision Modeling

KEYWORDS: Bloom's: Understanding

Chapter 3: Review of a Company's Accounting System

122. Several accounts are listed below:

- ___ a. Cash
- ___ b. Retained Earnings
- ___ c. Unearned Rent
- ___ d. Purchases Discounts
- ___ e. Accounts Payable
- ___ f. Accumulated Depreciation
- ___ g. Dividends
- ___ h. Sales Revenue
- ___ i. Capital Stock
- ___ j. Rent Expense
- ___ k. Prepaid Insurance
- ___ l. Interest Income

Required:

In the space to the left of each account, write the word “Permanent” or “Temporary” to identify the type of account.

ANSWER:

a.	Permanent	g.	Temporary
b.	Permanent	h.	Temporary
c.	Permanent	i.	Permanent
d.	Temporary	j.	Temporary
e.	Permanent	k.	Permanent
f.	Permanent	l.	Temporary

POINTS: 1

DIFFICULTY: Challenging

LEARNING OBJECTIVES: ACCT.WHAL.16.3.1 - LO: 3.1

NATIONAL STANDARDS: United States - BUSPROG: Reflective Thinking - BUSPROG: Analytic

LOCAL STANDARDS: United States - OH - Default City - AICPA: FN-Decision Modeling

KEYWORDS: Bloom's: Remembering

Chapter 3: Review of a Company's Accounting System

123.

The Long Horn Music Store uses a perpetual inventory system and had the following transactions during the Month of July.

- 1 Made credit sales of \$1,475; the cost of inventory sold was \$785.
- 4 Purchased \$1,500 worth of inventory, paying \$1,000 with cash.
- 7 Sold equipment that cost \$1,900 for \$2,300. The equipment was fully depreciated and had **no** salvage value.
- 10 Paid wages of \$1,250 and salaries of \$3,250. Neither the wages or the salaries had been previously accrued in Long Horn's records.
- 12 Made cash sales of \$4,450 and credit sales of \$3,250. The cost of the inventory sold was \$4,050.
- 18 Purchased new equipment of \$3,780 paying \$1,780 in cash and signing a 90 day note for the remainder.
- 24 Made cash sales of \$1235; cost of inventory sold \$650.
Paid wages of \$1,470 and salaries of \$3,250. Neither had been previously accrued.
- 29 Paid the remainder of the July 4 inventory.

Required:

Record the preceding transactions in a general journal.

ANSWER:

1	Accounts Receivable	1,475	
	Sales Revenue		1475
	Cost of Goods Sold	785	
	Inventory		785
4	Inventory	1,500	
	Cash		1,000
	Accounts Payable		500
7	Cash	2,300	
	Accumulated Depreciation-Equipment	1,900	
	Equipment		1,900
	Gain on Sale		2,300
10	Salaries & Wages Expense	4,500	
	Cash		4,500
	Or		
	Wages Expense	1,250	
	Cash		1,250
	Salaries Expense	3,250	
	Cash		3,250
12	Cash	4,450	
	Account Receivable	3,250	

Chapter 3: Review of a Company's Accounting System

	Sales Revenue		7,700
	Cost of Goods Sold	4,050	
	Inventory		4,050
18	Equipment	3,780	
	Cash		1,780
	Notes Payable		2,000
24	Cash	1,235	
	Sales Revenue		1,235
	Cost of Goods Sold	650	
	Inventory		650
	Salaries & Wages Expense	4,720	
	Cash		4,720
	Or		
	Wages Expense	1,470	
	Cash		1,470
	Salaries Expense	3,250	
	Cash		3,250
29	Accounts Payable	500	
	Cash		500

POINTS: 1

DIFFICULTY: Moderate

LEARNING OBJECTIVES: ACCT.WHAL.16.3.3 - LO: 3.3

NATIONAL STANDARDS: United States - BUSPORG: Analytic

LOCAL STANDARDS: United States - OH - Default City - AICPA: FN-Decision Modeling
United States - OH - Default City - AICPA: FN-Measurement

KEYWORDS: Bloom's: Analyzing

Chapter 3: Review of a Company's Accounting System

124. The Puzzle Maze Company sells games and puzzles using a perpetual inventory method. The following transactions took place during the month of April.

- 1 Paid \$12,000 in advance for rent.
- 3 Purchased supplies for the office paying cash in the amount of \$1,560.
- 4 Cash sales in the amount of \$3,450 and credit sales of \$1,240 were received for puzzles sold. Inventory cost was \$2,345
- 8 Purchased inventory on account in the amount of \$2,345.
- 14 Paid wages of \$2,367. The wages had **not** been previously accrued.
- 16 Received cash sales in the amount of \$1,246; the cost of inventory sold was \$623.
- 24 Paid for the inventory purchased on April 8.
- 26 Paid the utility bill for \$256 and paid for internet access in the amount of \$175.
- 29 Purchased advertising on account in the amount of \$650. The advertising charge was for three months, starting May 1.
- 30 Received cash sales in the amount of \$2,450 and credit sales of \$3,240 for puzzles sold. Inventory costs were \$2,845.

ANSWER:

1	Prepaid Rent	Cash	12,000	12,000
3	Supplies	Cash	1,560	1,560
4	Cash		3,450	
	Account Receivable		1,240	
		Sales Revenue		4,690
	Cost of Goods Sold		2,345	
		Inventory		2,345
8	Inventory		2,345	
		Account Payable		2,345
14	Wage Expense		2,367	
		Cash		2,367
16	Cash		1,246	
		Sales Revenue		1,246
	Cost of Goods Sold		623	
		Inventory		623
24	Account Payable		2,345	
		Cash		2,345
26	Utility Expense		256	
	Internet Expense		175	
		Cash		431
29	Prepaid Advertising		650	
		Cash		650

Chapter 3: Review of a Company's Accounting System

30 Cash	2,450		
Account Receivable	3,240		
		Sales Revenue	5,690
Cost of Goods Sold			
		Inventory	2,845
			2,845

POINTS:

1

DIFFICULTY:

Challenging

LEARNING OBJECTIVES: ACCT.WHAL.16.3.3 - LO: 3.3

NATIONAL STANDARDS: United States - BUSPORG: Analytic

LOCAL STANDARDS: United States - OH - Default City - AICPA: FN-Measurement

KEYWORDS:

Bloom's: Analyzing

Chapter 3: Review of a Company's Accounting System

125. Below is a list of accounts for the Duclaw Dog Company.

- 1 Accounts Payable
- 2 Accounts Receivable
- 3 Accumulated Depreciation-Equipment
- 4 Allowance for Doubtful Accounts
- 5 Bonds Payable
- 6 Cash
- 7 Common Stock
- 8 Discount on Bonds Payable
- 9 Equipment
- 10 Insurance Expense
- 11 Interest Expense
- 12 Inventory
- 13 Notes Payable, due in 5 years
- 14 Prepaid Rent
- 15 Retained Earnings
- 16 Salaries and Wages Expense
- 17 Salaries and Wages Payable
- 18 Unearned Revenue

Indicate the proper balance sheet classification of each of the 18 numbered accounts by inserting the appropriate classification, taken from the list below, after each of the numbers

Current assets
Property, plant, and equipment
Current liabilities
Long-term liabilities
Shareholders' Equity
Income Statement account

ANSWER:

- 1 Current liabilities
- 2 Current assets
- 3 Property, plant, and equipment
- 4 Current assets
- 5 Long-term liabilities
- 6 Current assets
- 7 Shareholders' equity
- 8 Long-term liabilities
- 9 Property, plant, and equipment
- 10 Income Statement Account
- 11 Income Statement Account
- 12 Current assets
- 13 Long-term liabilities
- 14 Current assets
- 15 Shareholders' equity
- 16 Income Statement Account
- 17 Current liabilities
- 18 Current liabilities

POINTS: 1

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DIFFICULTY: Moderate

LEARNING OBJECTIVES: ACCT.WHAL.16.3.4 - LO: 3.4

NATIONAL STANDARDS: United States - BUSPROG: Reflective Thinking - BUSPROG: Analytic

LOCAL STANDARDS: United States - OH - Default City - AICPA: FN-Decision Modeling

KEYWORDS: Bloom's: Remembering

126. Events concerning the Ellen Company for 2015 are described below:

- On September 1, 2015, a two-year comprehensive insurance policy was purchased for \$2,400. The payment was debited to Prepaid Insurance.
- On December 1, 2015, a customer paid \$1,250 in advance for services to be performed in January of 2016. The payment was credited to Unearned Revenue.
- On January 1, 2015, the office supplies account had a \$500 balance. Supplies costing \$3,100 were purchased during the year. At December 31, an inventory count showed \$100 of supplies on hand.
- On December 31, 2015, \$4,800 of unpaid employee salaries had accumulated. **No** entry for these salaries has been recorded.
- Straight-line depreciation is recorded only at year-end and is being used for a building that was purchased at the beginning of 2014 for \$48,000, with an expected life of 30 years and an estimated residual value of \$3,000.
- The income tax rate is 35% on current income. Pretax income *before the above adjusting entries* was \$95,600.

Required:

Prepare the appropriate December 31, 2015, adjusting entry for each item, or indicate that an adjusting entry is **not** necessary. Assume that Ellen's transactions were initially recorded in *permanent* (balance sheet) accounts unless otherwise indicated.

ANSWER:	a.	Insurance Expense (\$2,400/24 ×4) Prepaid Insurance	400	400
	b.	No adjusting entry necessary		
	c.	Office Supplies Expense Office Supplies	3,500	3,500
	d.	Salaries Expense Salaries Payable	4,800	4,800
	e.	Depreciation Expense-Building Accumulated Depreciation-Building	1500	1500
	f.	Income Tax Expense Income Taxes Payable 0.35 (\$95,600-400-3,500-4,800-1,500) = \$29,890	29,890	29,890

POINTS: 1

DIFFICULTY: Challenging

LEARNING OBJECTIVES: ACCT.WHAL.16.3.5 - LO: 3.5

NATIONAL STANDARDS: United States - BUSPROG: Analytic

LOCAL STANDARDS: United States - OH - Default City - AICPA: FN-Measurement

KEYWORDS: Bloom's: Analyzing

Chapter 3: Review of a Company's Accounting System

127. Several transactions for Kincaid Co. are presented below. The company adjusts its books only at year-end.

- On February 1, Kincaid Co. leased a warehouse to another company for \$48,000 for a three-year period. The company credited a revenue account on February 1 when the total amount of \$48,000 was received in cash.
- On September 1, Kincaid Co. paid \$6,000 to a local trucking company for certain deliveries spread evenly over a two-year period of time. The company charged an asset account on September 1.
- On May 1, the company borrowed \$10,000 on a 12%, one-year note.
- On March 10, Kincaid Co. bought \$300 of office supplies and debited the office supplies account. At the beginning of the year, office supplies of \$50 were on hand and disclosed on the January 1 balance sheet. At the end of the year, there were \$64 of office supplies on hand.

Required:

Prepare adjusting entries for December 31.

<i>ANSWER:</i>	a.	Rent Revenue	33,333	
		Unearned Rent Revenue		33,333
		$\$48,000/36 \times 25 \text{ months unearned} = \$33,333$		
	b.	Delivery Expense	1,000	
		Prepaid Delivery Expense		1,000
		$\$6,000/24 \times 4 \text{ months} = \$1,000$		
	c.	Interest Expense	800	
		Interest Payable		800
		$\$10,000 \times 12\% \times 8/12 = \800		
	d.	Supplies Expense	286	
		Office Supplies		286
		$\$50 + \$300 - \$64 = \286		

POINTS:

1

DIFFICULTY:

Challenging

LEARNING OBJECTIVES: ACCT.WHAL.16.3.5 - LO: 3.5

NATIONAL STANDARDS: United States - BUSPORG: Analytic

LOCAL STANDARDS: United States - OH - Default City - AICPA: FN-Measurement

KEYWORDS:

Bloom's: Analyzing

Chapter 3: Review of a Company's Accounting System

128. The following information is from the trial balance of the Basil Herb Company.

Accounts Payable	\$ 234,000
Accounts Receivable	164,000
Accumulated Depreciation—Equipment	225,000
Allowance for Doubtful Accounts	16,500
Bonds Payable	1,000,000
Cash	325,000
Common Stock	60,000
Discount on Bonds Payable	17,100
Equipment	950,000
Insurance Expense	30,000
Interest Expense	16,900
Inventory	300,000
Notes Payable (due 6/1/16)	200,000
Prepaid Rent	90,000
Retained Earnings	824,000
Salaries and Wages Expense	178,000
Salaries and Wages Payable	17,600
Unearned Revenue	15,000

(All of the above accounts have their normal debit or credit balances.)

Required:

Prepare adjusting journal entries at year end, December 31, 2015, for the Basil Herb Company using the following supplemental information. (Round to the nearest whole dollar.)

- Unexpired insurance at 12/31/15 is \$22,500.
- The equipment has a useful life of 15 years with \$10,000 salvage value. (Straight-line method being used.)
- Interest accrued on the bonds payable is \$16,900 as of 12/31/15. The discount is amortized using straight line over the life of the bonds. Bonds were issued January 1, 2015 for \$318,000 due in 10 years paying interest semiannually on July 1, and Jan. 1.
- The unearned revenue of \$15,000 was received June 1, 2015 to be earned evenly over the course of the year.
- The rent payment of \$90,000 covered the six months from November 30, 2015 through May 31, 2016.
- Salaries and wages earned but unpaid at 12/31/15, \$42,600.

ANSWER:	a. Prepaid Insurance	22,500	
	Insurance Expense		22,500
	b. Depreciation Expense [(\$950,000-\$10,000)/15]	62,667	
	Accumulated Depreciation-Equipment		62,667
	c. Interest Expense	16,900	
	Discount on Bonds Payable (\$18,000/10 × 6/12)		900
	Interest Payable		16,000
	d. Unearned Revenue	8,750	
	Revenue		8,750
	e. Rent Expense (\$90,000/6)	15,000	

Chapter 3: Review of a Company's Accounting System

	Prepaid Rent		15,000
f.	Salaries Expense	42,600	
	Salaries Payable		42,600

POINTS:

1

DIFFICULTY:

Challenging

LEARNING OBJECTIVES: ACCT.WHAL.16.3.5 - LO: 3.5

NATIONAL STANDARDS: United States - BUSPORG: Analytic

LOCAL STANDARDS: United States - OH - Default City - AICPA: FN-Measurement

KEYWORDS:

Bloom's: Analyzing

Chapter 3: Review of a Company's Accounting System

129. Several transactions for Trolley, Inc. are presented below. The company adjusts its books only at year-end.

- a. On August 1, the company rented some land from another company for \$2,660 for a three-year time period. Trolley charged an expense account on August 1.
- b. On February 1, Trolley paid \$8,000 for a four-year technical service contract. Trolley will receive services evenly throughout the four-year period. The company debited the asset account, Prepaid Service Contract, on February 1.
- c. On May 1, Trolley loaned \$3,400 to another company on a 12%, one-year note.
- d. The weekly (five-day) payroll of Trolley amounts to \$2,500. All employees are paid at the close of business each Friday. December 31 falls on a Thursday.

Required:

Prepare adjusting entries for December 31. (Round to the nearest whole dollar.)

<i>ANSWER:</i>	a.	Prepaid Rent ($\$2,660/36 \times 31$)	2,291	
		Rent Expense		2,291
	b.	Prepaid service contract ($\$8,000/48 \times 47$)	7,833	
		Service Expense		7,833
	c.	Interest Receivable ($\$3,400 \times 12\% \times 8/12$)	272	
		Interest Revenue		272
	d.	Salary Expense ($\$2,500/5 = \$500/\text{day} \times 4$ days)	2,000	
		Salaries Payable		2,000

POINTS:

1

DIFFICULTY:

Challenging

LEARNING OBJECTIVES: ACCT.WHAL.16.3.5 - LO: 3.5

NATIONAL STANDARDS: United States - BUSPORG: Analytic

LOCAL STANDARDS: United States - OH - Default City - AICPA: FN-Measurement

KEYWORDS: Bloom's: Analyzing

Chapter 3: Review of a Company's Accounting System

130. Selected account balances from the December 31, 2015, trial balance of the Gracy Company are listed below:

	<u>Debit</u>	<u>Credit</u>
Inventory, January 1, 2015	\$12,500	
Purchases	25,000	
Salaries Expense	5,000	
Rent Expense	3,250	
General and Administrative Expenses	2,500	
Sales		\$61,000
Dividends Declared	3,500	

In addition, the following information is available:

- The cost of the ending inventory at December 31, 2015, is \$7,500.
- \$890 of salaries have accrued as of December 31.
- On March 30, Gracy purchased a 12-month insurance policy for \$240. The purchase was debited to Prepaid Insurance.
- On December 1, the company paid 2 months' rent in advance. The \$1500 payment was debited to Rent Expense.
- In December, a customer paid \$1,000 in advance for merchandise that will be shipped by Gracy in 2016. The amount received was credited to Sales.
- Gracy estimates its bad debts to be 1% of sales (after all adjustments).
- The income tax rate is 30%.

Gracy Company uses a periodic inventory system.

Required:

Using a general journal format, prepare the required adjusting entries.

<i>ANSWER:</i>	Inventory	25,000	
	Purchases		25,000
	Cost of Goods Sold	30,000	
	Inventory		30,000
	Salaries Expense	890	
	Salaries Payable		890
	Insurance Expense	180	
	Prepaid Insurance (9/12 × \$240)		180
	Prepaid Rent	750	
	Rent Expense		750
	Sales	1,000	
	Unearned Revenue		1,000
	Bad Debts Expense	600	
	Allowance for Doubtful Accounts 0.01 (\$61,000 - \$1,000)		600
	Income Tax Expense	5,499	

Chapter 3: Review of a Company's Accounting System

$$\begin{aligned} & \text{Income Taxes Payable} && 5,499 \\ & 0.3 \times \$18,330 = \$5,499 \\ & \$18,330 = (\$61,000 - \$12,500 - \$25,000 + \$7,500 - \$5,000 - \\ & \$3,250 - \$2,500 - \$890 - \$180 + \$750 - \$1,000 - \$600) \end{aligned}$$

POINTS: 1
DIFFICULTY: Challenging
LEARNING OBJECTIVES: ACCT.WHAL.16.3.5 - LO: 3.5
NATIONAL STANDARDS: United States - BUSPORG: Analytic
LOCAL STANDARDS: United States - OH - Default City - AICPA: FN-Measurement
KEYWORDS: Bloom's: Analyzing

Chapter 3: Review of a Company's Accounting System

131. Graham Corp. engaged in the following transactions during the month of June:

- June 1 Made cash sales of \$15,000.
- 5 Made credit sales of \$25,000.
- 9 Customers returned \$800 of merchandise from the June 5 sale because it was defective.
- 14 Received payment for balance due on the June 5 sale.
- 19 Sold land that had originally cost \$15,000 for \$55,000 cash.

Required:

Record these transactions in a general journal, assuming Graham uses a periodic inventory system.

ANSWER:

June 1	Cash	15,000	
	Sales Revenue		15,000
5	Accounts Receivable	25,000	
	Sales Revenue		25,000
9	Sales Returns & Allowances	800	
	Accounts Receivable		800
14	Cash	24,200	
	Accounts Receivable		24,200
19	Cash	55,000	
	Land		15,000
	Gain on Sale of Land		40,000

POINTS:

1

DIFFICULTY:

Challenging

LEARNING OBJECTIVES: ACCT.WHAL.16.3.6 - LO: 3.6

NATIONAL STANDARDS: United States - BUSPORG: Analytic

LOCAL STANDARDS: United States - OH - Default City - AICPA: FN-Measurement

KEYWORDS:

Bloom's: Analyzing

Chapter 3: Review of a Company's Accounting System

132. The following information was taken from the accounting records of Acme Builders at the end of the year.

Land	\$450
Capital stock	900
Inventory	206
Accumulated depreciation-Building	180
Liabilities	250
Cash	32
Allowance for doubtful accounts	14
Retained earnings	264
Accounts receivable	?
Building	840

Required:

Calculate the amount of gross accounts receivable.

<i>ANSWER:</i>	<u>\$80:</u>		
	Cash		\$ 32
	Accounts receivable	\$ 80	
	Less: Allowance for doubtful accounts	<u>(14)</u>	66
	Inventory		206
	Land		450
	Building	\$840	
	Less: Accumulated depreciation	<u>(180)</u>	<u>660</u>
			<u><u>\$1,414</u></u>
	Liabilities		\$ 250
	Capital stock		900
	Retained earnings		<u>264</u>
			<u><u>\$1,414</u></u>

POINTS: 1

DIFFICULTY: Challenging

LEARNING OBJECTIVES: ACCT.WHAL.16.3.6 - LO: 3.6

NATIONAL STANDARDS: United States - BUSPORG: Analytic

LOCAL STANDARDS: United States - OH - Default City - AICPA: FN-Measurement

KEYWORDS: Bloom's: Analyzing

Chapter 3: Review of a Company's Accounting System

133. The following are selected account balances of the Roberts Company:

	<u>Debit</u>	<u>Credit</u>
Cash	\$15,300	
Inventory, January 1, 2015	10,000	
Sales Salaries Expense	15,000	
Sales Revenue		\$115,000
Inventory, December 31, 2015	8,300	
Sales Returns and Allowances	2,250	
Accounts Receivable	25,000	
Purchases Discounts		1,500
Purchases Returns and Allowances		2,350
Sales Discounts	2,300	
Purchases	69,700	
Freight-In	2,400	
Prepaid Rent	8,000	

Required:

Prepare a partial income statement through gross profit on sales.

ANSWER:

ROBERTS COMPANY Income Statement For Year Ended December 31, 2015

Sales revenue		\$115,000
Less: Sales returns and allowances	\$ 2,250	
Sales discounts	<u>2,300</u>	<u>(4,550)</u>
Net sales		\$110,450
Cost of goods sold		
Inventory, 1/1/15	\$ 10,000	
Purchases	69,700	
Purchases returns and allowances	(2,350)	
Purchases discounts	(1,500)	
Freight-in	<u>2,400</u>	
Cost of goods available for sale	\$78,250	
Less: Inventory, 12/31/15	<u>(8,300)</u>	
Cost of goods sold		<u>(69,950)</u>
Gross profit on sales		<u>\$40,500</u>

POINTS:

1

DIFFICULTY:

Challenging

LEARNING OBJECTIVES: ACCT.WHAL.16.3.6 - LO: 3.6

NATIONAL STANDARDS: United States - BUSPORG: Analytic

LOCAL STANDARDS: United States - OH - Default City - AICPA: FN-Measurement

KEYWORDS:

Bloom's: Analyzing

Chapter 3: Review of a Company's Accounting System

134. The following are selected account balances for Streamline Services:

Selling Expenses	\$500
Interest Expense	42
Purchases	2,300
Sales	7,900
Accounts Payable	90
Ending Inventory	?
Prepaid Insurance	84
Net Sales	7,430
Purchase Discounts	158
Beginning Inventory	300
Sales Returns and Allowances	?
Purchase Returns and Allowances	180
Cost of Goods Sold	1,500
Sales Discounts	260

Required:

Prepare a partial income statement through gross profit on sales. Do **not** prepare the heading.

<i>ANSWER:</i>	Sales		\$7,900
	Less: Sales returns and allowances	\$ 210	
	Sales discounts	<u>260</u>	<u>470</u>
	Net sales		\$7,430
	Cost of goods sold:		
	Beginning inventory	\$ 300	
	Purchases	\$2,300	
	Less: Purchase returns and allowances	\$180	
	Purchase discounts	<u>158</u>	<u>338</u>
	Net purchases		<u>1,962</u>
	Goods available for sale	\$2,262	
	Less: Ending inventory	<u>480</u>	
	Cost of goods sold		<u>1,782</u>
	Gross profit on sales		<u>\$5,648</u>

POINTS:

1

DIFFICULTY:

Challenging

LEARNING OBJECTIVES: ACCT.WHAL.16.3.6 - LO: 3.6

NATIONAL STANDARDS: United States - BUSPORG: Analytic

LOCAL STANDARDS: United States - OH - Default City - AICPA: FN-Measurement

KEYWORDS:

Bloom's: Analyzing

Chapter 3: Review of a Company's Accounting System

135. Selected accounts from the December 31, 2015, adjusted trial balance of the Howard Company are shown below.

	<u>Debit</u>	<u>Credit</u>
Inventory, January 1, 2015	\$30,000	
Sales Revenue		\$90,000
Sales Returns and Allowances	3,000	
Purchases	40,000	
Freight-In	2,500	
Selling Expenses	14,000	
Administrative Expenses	8,000	
Bad Debts Expense	500	
Depreciation Expense-Building	1,500	
Interest Expense	2,000	
Income Tax Expense	2,200	
Dividends	2,100	

On December 31, 2015 the inventory was \$18,000.

Required: Prepare a 2015 income statement for the Howard Company.

ANSWER:

Howard COMPANY
Income Statement
For Year Ended December 31, 2015

Sales revenue		\$90,000
Less: Sales returns and allowances		<u>3,000</u>
Net sales		\$87,000
Cost of goods sold		
Inventory, 1/1/15	\$30,000	
Purchases	40,000	
Freight-in	<u>2,500</u>	
Cost of goods available for sale	\$72,500	
Less: Inventory, 12/31/15	<u>18,000</u>	
Cost of goods sold		<u>54,500</u>
Gross profit on sales		\$32,500
Operating expenses:		
Selling expenses	\$14,000	
Administrative expenses	8,000	
Depreciation expense - Building	1,500	
Bad debts expense	<u>500</u>	
Total operating expenses		<u>24,000</u>
Income from operations		\$ 8,500
Interest expense		<u>2,000</u>
Income before income taxes		\$ 6,500
Income tax expense		<u>2,200</u>
Net income		<u>\$ 4,300</u>

POINTS: 1

DIFFICULTY: Challenging

LEARNING OBJECTIVES: ACCT.WHAL.16.3.6 - LO: 3.6

Chapter 3: Review of a Company's Accounting System

NATIONAL STANDARDS: United States - BUSPORG: Analytic

LOCAL STANDARDS: United States - OH - Default City - AICPA: FN-Measurement

KEYWORDS: Bloom's: Analyzing

Chapter 3: Review of a Company's Accounting System

136. McNally Play Company engaged in the following transactions during the month of August:

- August 4 Purchased \$3,000 of merchandise on account, terms 1/10, n/30. McNally records purchases using the gross method.
- 5 Returned \$400 of the merchandise purchased on Aug. 4 because it was defective.
- 6 Purchased a machine for \$5,000. Paid 20% down and signed an 8%, two-month note for the balance.
- 8 Purchased \$900 of merchandise and paid \$940, which included freight.
- 13 Paid the balance due on the purchase of Aug. 4.

Required:

Record these transactions in a general journal, assuming McNally Play uses a periodic inventory system.

ANSWER:

Aug. 4	Purchases	3,000	
	Accounts Payable		3,000
5	Accounts Payable	400	
	Purchase Returns & Allowances		400
6	Machinery	5,000	
	Cash		1,000
	Notes Payable		4,000
8	Purchases	900	
	Freight-In	40	
	Cash		940
13	Accounts Payable	2,600	
	Purchases Discounts		26
	Cash		2,574

POINTS:

1

DIFFICULTY:

Challenging

LEARNING OBJECTIVES: ACCT.WHAL.16.3.7 - LO: 3.7

NATIONAL STANDARDS: United States - BUSPORG: Analytic

LOCAL STANDARDS: United States - OH - Default City - AICPA: FN-Measurement

KEYWORDS:

Bloom's: Analyzing

Chapter 3: Review of a Company's Accounting System

137. The following are selected data for the Young Company:

Administrative expenses	\$ 920
Beginning inventory	1,140
Net sales	10,050
Net income	3,130
Ending inventory	1,180
Sales returns	1,180
Total operating expenses	1,380
Purchases	5,600

Required:

Compute the following:

- Sales
- Purchase returns
- Selling expenses
- Cost of goods sold

ANSWER:

Note: Solve in the following order: a, c, d, b.

- \$11,230 (Net sales \$10,050 + Sales returns \$1,180)
- \$20 (Net purchases = COGS \$5,540 - BI \$1,140 + EI \$1,180 = \$5,580; Purchase returns = Purchases \$5,600 - Net purchases \$5,580 = \$20)
- \$460 (Total operating expenses \$1,380 - Administrative expenses \$920)
- \$5,540 (Gross profit = Net income \$3,130 + Total operating expenses \$1,380 = \$4,510; Net sales = Sales \$11,230 - Sales returns \$1,180 = \$10,050; COGS = Net sales \$10,050 - Gross profit \$4,510 = \$5,540)

POINTS:

1

DIFFICULTY:

Challenging

LEARNING OBJECTIVES: ACCT.WHAL.16.3.7 - LO: 3.7

NATIONAL STANDARDS: United States - BUSPORG: Analytic

LOCAL STANDARDS: United States - OH - Default City - AICPA: FN-Measurement

KEYWORDS:

Bloom's: Analyzing

Chapter 3: Review of a Company's Accounting System

138. December 31 balances for selected accounts of the Chaney Company are presented below.

Accounts Receivable	\$ 500
Sales	2,500
Interest Revenue	750
Dividends	300
Allowance for Doubtful Accounts	100
Salaries Expense	500
Depreciation Expense	400
Unearned Rent	200

Required:

Based on the accounts presented above, prepare the appropriate closing entries.

ANSWER:

Sales	2,500	
Interest Revenue	750	
Income Summary		3,250
Income Summary	900	
Salaries Expense		500
Depreciation Expense		400
Income Summary	2,350	
Retained Earnings		2,350
Retained Earnings	300	
Dividends		300

POINTS:

1

DIFFICULTY:

Challenging

LEARNING OBJECTIVES: ACCT.WHAL.16.3.7 - LO: 3.7

NATIONAL STANDARDS: United States - BUSPORG: Analytic

LOCAL STANDARDS: United States - OH - Default City - AICPA: FN-Measurement

KEYWORDS:

Bloom's: Analyzing

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139. Figure APC-1 is the condensed worksheet for the Amoss Company as of December 31, 2015.

Additional Information:

- a. Prepaid insurance is for a two-year theft policy dated July 1, 2015.
- b. The ending inventory balance is to \$300.
- c. The building is being depreciated over a 30-year life, straight-line, **no** salvage value.
- d. The balance in Unearned Consulting Revenue pertains to a contract sold on September 1, 2015, to provide service to a client for one year.
- e. Office supplies on hand at year-end amount to \$24.
- f. At year-end, there are accrued salaries of \$50.
- g. Repair Service Revenue includes a contract for \$120 received on July 1, 2015, for a one-year period of time.
- h. The tax rate is 50%.

Required:

Complete the worksheet, assuming that adjusting entries are made only at December 31, 2015.

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Figure APC-1

Account Titles	Trial Balance		Adjustments		Income Statement		Retained Earnings Statement		Balance Sheet	
	Debit	Credit	Debit	Credit	Debit	Credit	Debit	Credit	Debit	Credit
Prepaid Insurance	160									
Inventory, Jan. 1	180									
Building	900									
Accum. Depreciation		260								
Other Assets	2,068									
Unearned Consult. Rev.		48								
Capital Stock		2,300								
Ret. Earnings, Jan. 1		620								
Sales		3,600								
Repair Serv. Revenue		800								
Office Supp. Expense	120									
Salaries Expense	1,800									
Purchases	2,400									
Totals	<u>7,628</u>	<u>7,628</u>								

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ANSWER:

Account Titles	Trial Balance		Adjustments		Income Statement		Retained Earnings Statement		Balance Sheet	
	Debit	Credit	Debit	Credit	Debit	Credit	Debit	Credit	Debit	Credit
Prepaid Insurance	160		(a) 40						120	
Inventory, Jan. 1	180				180					
Building	900								900	
Accum. Depreciation		260		(c) 30						290
Other Assets	2,068								2,068	
Unearned Consult Rev.		48		(d) 16						32
Capital Stock		2,300								2,300
Ret. Earnings, Jan. 1		620								
Sales		3,600				3,600				
Repair Serv. Revenue		800		(g) 60		740				
Office Supp. Expense	120		(e) 24				96			
Salaries Expense	1,800			(f) 50			1,850			
Purchases	2,400						2,400			
Totals	<u>7,628</u>	<u>7,628</u>								

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Account Titles	Trial Balance		Answer APC-1 (cont'd)				Retained Earnings Statement		Balance Sheet	
	Debit	Credit	Adjustments Debit	Adjustments Credit	Income Statement Debit	Income Statement Credit	Debit	Credit	Debit	Credit
Insurance Expense			(a) 40		40					
Inventory, Dec. 31 (b)						300			300	
Depreciation Expense			(c) 30		30					
Consulting Revenue				(d) 16		16				
Office Supplies			(e) 24						24	
Salaries Payable				(f) 50						50
Unearned Repair Serv. Rev.				(g) 60						60
Income Tax Expense			(h) 30		30					30
Income Tax Payable				(h) 30						
			<u>250</u>	<u>250</u>	4,626	4,656				
Net Income					<u>30</u>					<u>30</u>
				<u>4,656</u>	<u>4,656</u>					650
Retained Earnings, Dec. 31								<u>650</u>		<u>650</u>
								<u>650</u>		<u>650</u>
									<u>3,412</u>	<u>3,412</u>

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Calculations:

- (a) $\$160/2 \times 6/12 = \40 insurance expense
- (b) ending inventory
- (c) $\$900/30 = \30 depreciation expense
- (d) $\$48 \times 4/12 = \16 earned revenue
- (e) office supplies expense
- (f) accrued salaries
- (g) $\$120 \times 6/12 = \60 unearned revenue
- (h) $\$4,656 - \$4,596 = \$60$ pretax income; $\$60 \times 50\% = \30 income tax expense

<i>POINTS:</i>	1
<i>DIFFICULTY:</i>	Challenging
<i>LEARNING OBJECTIVES:</i>	ACCT.WHAL.16.3.8 - LO: 3.8
<i>NATIONAL STANDARDS:</i>	United States - BUSPORG: Analytic
<i>LOCAL STANDARDS:</i>	United States - OH - Default City - AICPA: FN-Measurement
<i>KEYWORDS:</i>	Bloom's: Analyzing

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140. Figure APC-2 is the condensed worksheet for the Christopher Company as of December 31, 2014.

Additional Information:

- a. Prepaid Insurance is for a two-year fire insurance policy dated July 1, 2014.
- b. The ending inventory amounts to \$76.
- c. The building is being depreciated over a ten-year life, straight-line, **no** salvage value.
- d. The balance in Unearned Repair Service Revenue pertains to a contract sold on November 1, 2014, to provide service to a client for one year.
- e. Office supplies on hand at year-end amount to \$14.
- f. At year-end, there are accrued salaries of \$6.
- g. Consulting Revenue includes a contract for \$60 received on October 1, 2014, for a one-year period of time.
- h. The tax rate is 50%.

Required:

Complete the worksheet, assuming that adjusting entries are made only at December 31.

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Figure APC-2

Account Titles	Trial Balance		Adjustments		Income Statement		Retained Earnings Statement		Balance Sheet	
	Debit	Credit	Debit	Credit	Debit	Credit	Debit	Credit	Debit	Credit
Prepaid Insurance	20									
Inventory, Jan. 1	70									
Building	200									
Accum. Depreciation		80								
Other Assets	1,262									
Unearned Repair Serv. Rev.		12								
Capital Stock		1,000								
Ret. Earnings, Jan. 1		400								
Sales		1,500								
Consulting Revenue		500								
Office Supp. Expense	40									
Salaries Expense	800									
Purchases	1,100									
Totals	<u>3,492</u>	<u>3,492</u>								

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ANSWER:

Account Titles	Trial Balance		Adjustments		Income Statement		Retained Earnings Statement		Balance Sheet	
	Debit	Credit	Debit	Credit	Debit	Credit	Debit	Credit	Debit	Credit
Prepaid Insurance	20			(a) 5					15	
Inventory, Jan. 1	70				70					
Building	200								200	
Accum. Depreciation		80		(c) 20						100
Other Assets	1,262								1,262	
Unearned Repair Serv. Rev.		12	(d) 2							10
Capital Stock		1,000								1,000
Ret. Earnings, Jan. 1		400						400		
Sales		1,500								1,500
Consulting Revenue		500	(g) 45							455
Office Supp. Expense	40			(e) 14		26				
Salaries Expense	800		(f) 6			806				
Purchases	1,100					1,100				
Totals	<u>3,492</u>	<u>3,492</u>								

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Answer APC-2 (cont'd)

Account Titles	Trial Balance		Adjustments		Income Statement		Retained Earnings Statement		Balance Sheet	
	Debit	Credit	Debit	Credit	Debit	Credit	Debit	Credit	Debit	Credit
Insurance Expense			(a) 5		5					
Inventory, Dec. 31 (b)		76				76			76	
Depreciation Expense			(c) 20		20					
Repair Service Revenue				(d) 2		2				
Office Supplies			(e) 14						14	
Salaries Payable				(f) 6						6
Unearned Consulting Rev.				(g) 45						45
Income Tax Expense						2,027	2,033			
Income Tax Payable				(h) 3		3				3
Net Income										
			<u>95</u>	<u>95</u>	<u>2,030</u>	<u>2,033</u>				
					<u>3</u>					<u>3</u>
Retained Earnings, Dec. 31									<u>403</u>	<u>403</u>

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Calculations:

- (a) $\$20/2 \times 6/12 = \5 insurance expense
- (b) ending inventory
- (c) $\$200/10 = \20 depreciation expense
- (d) $\$12 \times 2/12 = \2 earned revenue
- (e) office supplies expense
- (f) accrued salaries
- (g) $\$60/12 \times 9 = \45 unearned revenue
- (h) $\$2,033 - \$2,027 = \$6$ pretax income; $\$6 \times 50\% = \3 income tax expense

POINTS: 1

DIFFICULTY: Challenging

LEARNING OBJECTIVE ACCT.WHAL.16.3.8 - LO: 3.8

S:

NATIONAL STANDARD United States - BUSPORG: Analytic

S:

LOCAL STANDARDS: United States - OH - Default City - AICPA: FN-Measurement

KEYWORDS: Bloom's: Analyzing

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141. Selected adjusting entries are shown below:

a.	Insurance Expense	2,500	
	Prepaid Insurance		2,500
b.	Rent Revenue	1,250	
	Unearned Rent		1,250
c.	Salaries Expense	2,900	
	Salaries Payable		2,900
d.	Interest Expense	1,300	
	Interest Payable		1,300
e.	Interest Receivable	1,800	
	Interest Revenue		1,800
f.	Depreciation Expense	2,600	
	Accumulated Depreciation-Equipment		2,600
g.	Bad Debts Expense	275	
	Allowance for Doubtful Accounts		275

Required:

Indicate by Yes or No which of the preceding adjusting entries could be reversed

- a. _____
- b. _____
- c. _____
- d. _____
- e. _____
- f. _____
- g. _____

ANSWER:

- a. No
- b. Yes
- c. Yes
- d. Yes
- e. Yes
- f. No
- g. No

POINTS:

1

DIFFICULTY:

Challenging

LEARNING OBJECTIVES: ACCT.WHAL.16.3.9 - LO: 3.9

NATIONAL STANDARDS: United States - BUSPROG: Reflective Thinking - BUSPROG: Analytic

LOCAL STANDARDS: United States - OH - Default City - AICPA: FN-Decision Modeling

KEYWORDS: Bloom's: Applying

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142. Garrison Company has provided you with the following information relating to four transactions during the month of March:

- Garrison acquired \$18,000 of office supplies for cash. Office supplies on hand at the beginning of March totaled \$3,400, while \$2,000 remained at the end of March.
- Garrison pays salaries monthly on the 2nd day of the month. Salaries earned by employees in March totaled \$56,000. Salaries owed on March 1 and paid on March 2 totaled \$51,000.
- Advance deposits on hand at the beginning of March for work orders to be completed in March and April for customers totaled \$75,000. Work completed and delivered during March on those work orders was \$35,000. **No** new advance deposits were received in March.
- Garrison had uncollected account receivables at March 1 totaling \$38,000. Collections during March totaled \$136,000, which included the entire March 1 receivables balance. New, end-of March billings to customers who bought goods in March on account and will pay in April totaled \$40,000.

Garrison records operating revenues and expenses on the **cash basis** during the month. Adjusting entries are recorded monthly, the books are closed at the end of each month, and appropriate reversing entries are prepared as the first entries of each new month.

Required:

For each of the four transaction information sets (a-d), complete the t-accounts below showing

- the appropriate March 1 balances
- all changes to the accounts that would be posted during March, including adjusting and closing entries as are appropriate
- all April 1 reversing entries

a.

Office Supplies	Office Supplies Expense

b.

Salaries Payable	Salaries Expense

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c.

Unearned Revenue	Project Revenue

d.

Accounts Receivable	Sales Revenue

ANSWER:

a.

Office Supplies		Office Supplies Expense	
3/1	3,400	3/1	0
Balance		Balance	
		3/1	3,400
		Reversing	
		Purchases	18,000
3/31	2,000	3/31	2,000
Adjust		Adjust	
3/31	2,000	3/31	19,400
Balance		Balance	
		3/31	19,400
		Closing	
4/1	2,000	4/1	0
Balance		Balance	
		4/1	2,000
		Reversing	

b.

Salaries Payable		Salaries Expense	
	3/1	3/1	0
	51,000	Balance	
		3/1	51,000
3/1	51,000	Reversing	
Reversing		3/2	51,000
		Payment	

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	3/31	56,000	3/31	56,000	
	Adjusting		Adjusting		
	3/31	56,000	3/31	56,000	
	Balance		Balance		3/31
					Closing
	4/1	56,000	4/1	0	
	Balance		Balance		
4/1	56,000				4/1
Reversing					Reversing

c.

Unearned Revenue			Project Revenue		
	3/1	75,000		3/1	0
	Balance			Balance	
3/1	75,000			3/1	75,000
Reversing				Reversing	
	3/31	40,000	3/31	40,000	
	Adjusting		Adjusting		
	3/31	40,000		3/31	35,000
	Balance			Balance	
				3/31	35,000
				Closing	
	4/1	40,000		4/1	0
	Balance			Balance	
4/1	40,000			4/1	40,000
Reversing				Reversing	

d.

Accounts Receivable			Sales Revenue		
3/1	38,000			3/1	0
Balance				Balance	
	3/1	38,000	3/1	38,000	
	Reversing		Reversing		
3/31	40,000			Collections	136,000
Adjusting				3/31	40,000
3/31	40,000			Adjusting	
Balance				3/31	138,000
				Balance	
			3/31	138,000	
			Closing		
	4/1	40,000	4/1	40,000	
	Reversing		Reversing		4/1
					Balance
					0

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POINTS: 1

DIFFICULTY: Challenging

LEARNING OBJECTIVES: ACCT.WHAL.16.3.9 - LO: 3.9

NATIONAL STANDARDS: United States - BUSPORG: Analytic

LOCAL STANDARDS: United States - OH - Default City - AICPA: FN-Measurement

KEYWORDS: Bloom's: Analyzing

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143. Information regarding the Rainey Company follows:

- On November 1, 2014, Rainey accepted a \$10,000, three-month note receivable from a major customer. Interest on the note, computed at a 12% annual rate, will be collected with the principal.
- On December 1, 2014, Rainey borrowed \$12,000 from its bank. The principal, plus interest computed at a 10% annual rate, is due on June 1, 2015.
- Rainey uses the straight-line method to record depreciation on its equipment. The equipment, which cost \$12,000, has an estimated life of 10 years and **no** expected residual value.
- \$3,725 of salaries had accrued as of December 31, 2014.

Required:

- a. Assuming that Rainey *does* use reversing entries, prepare December 31, 2014 adjusting entries and 2015 reversing entries.
- b. Assuming that Rainey does **not** use reversing entries, prepare journal entries to record the collection of the note receivable and the payment of the note payable in 2015.

ANSWER:

a.	<u>Adjusting Entries:</u>		
	Interest Receivable (\$10,000 x 12% x 2/12 = \$200)	200	
	Interest Revenue		200
	Interest Expense (\$12,000 x 10% x 1/12 = \$100)	100	
	Interest Payable		100
	Depreciation Expense-Equipment (\$12,000/10 = \$1,200)	1,200	
	Accumulated Depreciation-Equipment		1,200
	Salaries Expense	3,725	
	Salaries Payable		3,725
	<u>Reversing Entries:</u>		
	Interest Revenue	200	
	Interest Receivable		200
	Interest Payable	100	
	Interest Expense		100
	Salaries Payable	3,725	
	Salaries Expense		3,725
b.	Cash	10,300	
	Note Receivable		10,000
	Interest Receivable		200
	Interest Revenue (\$10,000 x 12% x 1/12 = \$100)		100
	Interest Expense (\$12,000 x 10% x 5/6 = \$500)	500	
	Interest Payable	100	
	Note Payable	12,000	
	Cash		12,600

POINTS:

1

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DIFFICULTY: Challenging

LEARNING OBJECTIVES: ACCT.WHAL.16.3.9 - LO: 3.9

NATIONAL STANDARDS: United States - BUSPORG: Analytic

LOCAL STANDARDS: United States - OH - Default City - AICPA: FN-Measurement

KEYWORDS: Bloom's: Analyzing

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144. Manny Corporation has an accounting system that includes five journals: the sales, purchases, cash receipts, cash payments, and general journals. The following transactions occurred during the month of May.

- May 2 Sold merchandise to Tom Smith on account, \$80,000, terms 2/10, n/30.
- 7 Purchased merchandise from the Karen Ruth Company for \$11,000, paying cash.
- 9 Purchased merchandise from Joan Wholesalers on account for \$5,500, terms n/30.
- 11 Received payment from Tom Smith for the \$80,000 invoice amount, less the 2% sales discount.
- 15 Purchased office equipment from Lew Supply Company for \$50,000 on account.
- 16 Made a cash sale of \$4,000 to Smithtown distributors.
- 17 Paid Joan Wholesalers for the \$5,500 invoice.
- 19 Sold land for \$9,000 cash. The original cost of the land was \$9,900.

Required:

Prepare (in general journal form) the journal entries necessary to record the above transactions in the month of May, and indicate in which (special) journal they would have been recorded. Assume that Manny Corporation uses the periodic inventory system.

ANSWER:

May 2	Accounts Receivable	80,000		(sales)
	Sales Revenue		80,000	
7	Purchases	11,000		(cash payments)
	Cash		11,000	
9	Purchases	5,500		(purchases)
	Accounts Payable		5,500	
11	Cash	78,400		(cash receipts)
	Sales Discounts Taken	1,600		
	Accounts Receivable		80,000	
15	Office Equipment	50,000		(general)
	Accounts Payable		50,000	
16	Cash	4,000		
	Sales		4,000	(cash receipts)
17	Accounts Payable	5,500		(cash payments)
	Cash		5,500	
19	Cash	9,000		(cash receipts)
	Loss on Sale of Land	900		
	Land		9,900	

POINTS: 1

DIFFICULTY: Challenging

LEARNING OBJECTIVES: ACCT.WHAL.16.3.11 - LO: 3.10
ACCT.WHAL.16.3.7 - LO: 3.7

NATIONAL STANDARDS: United States - BUSPORG: Analytic

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LOCAL STANDARDS: United States - OH - Default City - AICPA: FN-Measurement

KEYWORDS: Bloom's: Analyzing

145. The Bell Corporation uses a general journal, a sales journal, a purchases journal, a cash receipts journal, and a cash payments journal. Below are listed 12 of Bell Corporation's transactions in for the current year.

- a. Purchased \$3,000 of merchandise on credit.
- b. Sold \$500 merchandise on account.
- c. Sold \$1,500 merchandise for cash.
- d. Credited \$300 in sales returns to customer accounts.
- e. Prepared adjusting and closing entries.
- f. Paid \$200 office salaries.
- g. Returned \$250 of defective merchandise to supplier for credit on account.
- h. Purchased building site for \$7,500 cash.
- i. Purchased \$1,000 merchandise for cash.
- j. Collected \$750 from customers on account.
- k. Purchased building by issuing \$10,000 note payable.
- l. Received a \$600 income tax refund.

Required:

List the letters (a) through (l) to reference the transactions shown above, and next to each letter write the name of the journal in which Bell would record that transaction.

ANSWER:

a.	purchases journal
b.	sales journal
c.	cash receipts journal
d.	general journal
e.	general journal
f.	cash payments journal
g.	general journal
h.	cash payments journal
i.	cash payments journal
j.	cash receipts journal
k.	general journal
l.	cash receipts journal

POINTS: 1

DIFFICULTY: Challenging

LEARNING OBJECTIVES: ACCT.WHAL.16.3.1 - LO: 3.1

NATIONAL STANDARDS: United States - BUSPROG: Reflective Thinking - BUSPROG: Analytic

LOCAL STANDARDS: United States - OH - Default City - AICPA: FN-Decision Modeling

KEYWORDS: Bloom's: Applying

Chapter 3: Review of a Company's Accounting System

146. The Morris Company uses cash-basis accounting for its records. During 2015, Morris collected \$150,000 from its customers, made payments of \$70,000 to its suppliers for merchandise inventory, and paid \$40,000 for operating costs. Morris wants to prepare its financial statements on an accrual basis. In gathering information for the accrual-basis financial statements, Morris discovered the following:

- At the beginning of 2015, customers owed Morris \$20,000, and Morris owed suppliers \$7,000.
- At the end of 2015, customers owed Morris \$30,000, and Morris owed suppliers \$11,000.
- Two years ago, Morris purchased equipment for \$10,000. The equipment has a useful life of five years and no salvage value.
- For the year 2015, Morris's beginning inventory was \$5,000, and its ending inventory was \$6,500.
- At the beginning of 2015, Morris had prepaid rent of \$3,000. At the end of the year, Morris had prepaid rent of \$500.

Required:

Using accrual accounting, prepare an income statement for 2015 for Morris Company.

ANSWER:

MORRIS COMPANY
Income Statement
For Year Ended December 31, 2015

Sales revenue (\$150,000 + \$30,000 - \$20,000)		\$160,000
Cost of goods sold (\$70,000 + \$5,000 - \$6,500 + \$11,000 - \$7,000)		<u>72,500</u>
Gross profit on sales		\$ 87,500
Operating expenses:		
Depreciation expense-Equipment (\$10,000/5)	\$ 2,000	
Other operating expenses (\$40,000+ \$3,000 - \$500)	<u>42,500</u>	
Total operating expenses		<u>44,500</u>
Net income		<u>\$ 43,000</u>

POINTS:

1

DIFFICULTY:

Challenging

LEARNING OBJECTIVES: ACCT.WHAL.16.3.10 - LO: 3.11

ACCT.WHAL.16.3.2 - LO: 3.2

ACCT.WHAL.16.3.4 - LO: 3.4

ACCT.WHAL.16.3.5 - LO: 3.5

ACCT.WHAL.16.3.6 - LO: 3.6

NATIONAL STANDARDS: United States - BUSPORG: Analytic

LOCAL STANDARDS: United States - OH - Default City - AICPA: FN-Measurement

KEYWORDS:

Bloom's: Analyzing

Chapter 3: Review of a Company's Accounting System

147. The McNally Company uses cash-basis accounting for its records. During 2015, McNally collected \$500,000 from its customers, made payments of \$200,000 to its suppliers for inventory, and paid \$140,000 for operating costs. McNally wants to prepare accrual-basis financial statements. In gathering information for the accrual-basis financial statements, McNally discovered the following:

- Customers owed McNally \$35,000 at the beginning of 2015 and \$50,000 at the end of 2015.
- McNally owed suppliers \$20,000 at the beginning of 2014 and \$27,000 at the end of 2015.
- McNally's beginning inventory was \$42,000, and its ending inventory was \$44,000.
- McNally had prepaid expenses of \$5,000 at the beginning of 2015 and \$7,400 at the end of 2014.
- McNally had accrued expenses of \$12,000 at the beginning of 2015 and \$19,000 at the end of 2015.
- Depreciation for 2015 was \$51,000.

Required:

Prepare an accrual-basis income statement for 2015 for McNally Company.

ANSWER:

McNally COMPANY
Income Statement
For Year Ended December 31, 2015

Sales revenue ($\$500,000 + \$50,000 - \$35,000$)	\$515,000
Cost of goods sold ($\$200,000 + \$42,000 - \$44,000 + \$27,000 - \$20,000$)	<u>205,000</u>
Gross profit on sales	\$310,000
Operating expenses:	
Depreciation expense-Equipment	\$ 51,000
Other operating expenses ($\$140,000 + \$5,000 - \$7,400 + \$19,000 - \$12,000$)	<u>144,600</u>
Total operating expenses	<u>195,600</u>
Net income	<u>\$114,400</u>

POINTS:

1

DIFFICULTY:

Challenging

LEARNING OBJECTIVES: ACCT.WHAL.16.3.10 - LO: 3.11

ACCT.WHAL.16.3.2 - LO: 3.2

ACCT.WHAL.16.3.4 - LO: 3.4

ACCT.WHAL.16.3.5 - LO: 3.5

ACCT.WHAL.16.3.6 - LO: 3.6

NATIONAL STANDARDS: United States - BUSPORG: Analytic

LOCAL STANDARDS: United States - OH - Default City - AICPA: FN-Measurement

KEYWORDS:

Bloom's: Analyzing

Chapter 3: Review of a Company's Accounting System

148. What is the primary purpose of a company's accounting system?

ANSWER: The primary purpose of a company's accounting system is to record, organize, summarize, and report useful information to external financial statement users and stakeholder's as well as to internal users of financial information making operating, investing, and financing decisions.

POINTS: 1

DIFFICULTY: Moderate

LEARNING OBJECTIVES: ACCT.WHAL.16.3.1 - LO: 3.1

NATIONAL STANDARDS: United States - BUSPROG: Reflective Thinking - BUSPROG: Analytic

LOCAL STANDARDS: United States - OH - Default City - AICPA: FN-Decision Modeling

KEYWORDS: Bloom's: Remembering

149. List the major steps in the accounting cycle.

ANSWER: Step 1: Record the transactions, events and arrangements in a journal.
Step 2: Post the journal entries to the accounts in the ledger.
Step 3: Prepare and post adjusting entries.
Step 4: Prepare the appropriate financial statements.
Step 5: Prepare and post-closing entries for the temporary accounts: revenues, expenses, gains, losses, and dividend accounts.

POINTS: 1

DIFFICULTY: Moderate

LEARNING OBJECTIVES: ACCT.WHAL.16.3.2 - LO: 3.2

NATIONAL STANDARDS: United States - BUSPROG: Reflective Thinking - BUSPROG: Analytic

LOCAL STANDARDS: United States - OH - Default City - AICPA: FN-Decision Modeling

KEYWORDS: Bloom's: Understanding

150. What are the advantages of using the general journal when recording journal entries?

ANSWER: 1) It helps prevent errors. This is because each entry is recorded in one specific location which makes balancing of debits and credits easier.

2) All information pertaining to the entry is listed in chronological order.

POINTS: 1

DIFFICULTY: Moderate

LEARNING OBJECTIVES: ACCT.WHAL.16.3.3 - LO: 3.3

NATIONAL STANDARDS: United States - BUSPROG: Communication

LOCAL STANDARDS: United States - OH - Default City - AICPA: FN-Decision Modeling

KEYWORDS: Bloom's: Understanding

Chapter 3: Review of a Company's Accounting System

151. What are adjusting entries and why are they necessary?

ANSWER: Adjusting entries are journal entries made at the end of the period to record activity that occurred during the period but which had not yet been recorded. Adjusting entries are required so that all revenues and expenses are recorded in the appropriate period and all assets and liabilities have correct ending balances. Adjusting entries affect both an income statement account and a balance sheet account. The entries are classified as either deferrals, accruals, or estimates.

POINTS: 1

DIFFICULTY: Moderate

LEARNING OBJECTIVES: ACCT.WHAL.16.3.5 - LO: 3.5

NATIONAL STANDARDS: United States - BUSPROG: Communication

LOCAL STANDARDS: United States - OH - Default City - AICPA: FN-Decision Modeling

KEYWORDS: Bloom's: Understanding

152. What is the order in which financial statements should be prepared?

ANSWER: income statement
statement of shareholders' equity
balance sheet
cash flow statement

POINTS: 1

DIFFICULTY: Easy

LEARNING OBJECTIVES: ACCT.WHAL.16.3.6 - LO: 3.6

NATIONAL STANDARDS: United States - BUSPROG: Reflective Thinking - BUSPROG: Analytic

LOCAL STANDARDS: United States - OH - Default City - AICPA: FN-Decision Modeling

KEYWORDS: Bloom's: Remembering

153. What are closing entries and why are they necessary?

ANSWER: Closing entries are entries made at the end of the period to close the temporary accounts which are revenue, expenses, gains, losses, and dividend accounts. Closing entries are needed to update the retained earnings account to their correct end-of-period balances and to reduce the balance in each temporary account to zero, in order get the ledger ready for recording financial transactions in the next period. The temporary accounts are closed to a temporary holding account called "Income Summary".

POINTS: 1

DIFFICULTY: Moderate

LEARNING OBJECTIVES: ACCT.WHAL.16.3.7 - LO: 3.7

NATIONAL STANDARDS: United States - BUSPROG: Communication

LOCAL STANDARDS: United States - OH - Default City - AICPA: FN-Decision Modeling

KEYWORDS: Bloom's: Understanding

Chapter 3: Review of a Company's Accounting System

154. What is the purpose of the worksheet?

ANSWER: The worksheet is an internal document used to prevent errors and assist in preparing the financial statements. It often helps simplify the journalizing of adjusting entries.

POINTS: 1

DIFFICULTY: Easy

LEARNING OBJECTIVES: ACCT.WHAL.16.3.8 - LO: 3.8

NATIONAL STANDARDS: United States - BUSPROG: Reflective Thinking - BUSPROG: Analytic

LOCAL STANDARDS: United States - OH - Default City - AICPA: FN-Decision Modeling

KEYWORDS: Bloom's: Remembering

155. What is the purpose of a reversing entry?

ANSWER: It is an optional entry that simplifies the recording of future entries. It enables a company to routinely record the subsequent transactions without having to consider the possible impact of the prior adjusting entry. It is the inverse of an adjusting entry and usually recorded on the first day of the next period.

POINTS: 1

DIFFICULTY: Easy

LEARNING OBJECTIVES: ACCT.WHAL.16.3.9 - LO: 3.9

NATIONAL STANDARDS: United States - BUSPROG: Reflective Thinking - BUSPROG: Analytic

LOCAL STANDARDS: United States - OH - Default City - AICPA: FN-Decision Modeling

KEYWORDS: Bloom's: Remembering

156. What is the difference between a subsidiary ledger and a special journal?

ANSWER: The subsidiary ledgers are ledgers that contain groups of accounts, all of which are related to a specific activity within the company. The subsidiary ledgers help reduce posting errors, control the size of the general journal, and divide tasks more efficiently, while keeping the individual records (e.g., customer records or vendor records) accurate and up to date.

The special journals are journals that used to record frequent and similar transactions. The special journals allow the accounting tasks to be divided more efficiently, thereby saving time, while still keeping all items listed chronologically.

POINTS: 1

DIFFICULTY: Challenging

LEARNING OBJECTIVES: ACCT.WHAL.16.3.1 - LO: 3.1

NATIONAL STANDARDS: United States - BUSPROG: Communication

LOCAL STANDARDS: United States - OH - Default City - AICPA: FN-Decision Modeling

KEYWORDS: Bloom's: Applying

Chapter 3: Review of a Company's Accounting System

157. What type of adjustments are necessary to convert cash basis to accrual based accounting?

ANSWER:

In order to convert from cash basis accounting to accrual basis accounting, the first step is to analyze the data within the financial statements to determine what translates into revenue, cost of goods sold, and expenses. Revenue conversion starts with the cash collected from customers, adds the ending account receivable balance, and subtracts the beginning account receivable balance. The result is accrual basis sales revenue. Computation of cost of goods sold starts with reviewing the payments to suppliers, adding beginning inventory, subtracting ending inventory, then adding the ending balance in accounts payable and subtracting the beginning balance in accounts payable. The result is cost of goods sold. Finally, the computation of operating expenses begins with reviewing payments for other operating costs, then adding the beginning balances in prepaid expenses and subtracting the ending balances, adding the ending balances in accrued expenses and subtracting the beginning balances, and finally adding any non-cash expenses, such as depreciation.

POINTS:

1

DIFFICULTY:

Challenging

LEARNING OBJECTIVES: ACCT.WHAL.16.3.10 - LO: 3.11

NATIONAL STANDARDS: United States - BUSPROG: Communication

LOCAL STANDARDS: United States - OH - Default City - AICPA: FN-Decision Modeling

KEYWORDS:

Bloom's: Applying

158. A number of steps are typically completed during each accounting period to record, store, and report the accounting information contained in the recorded transactions. These steps are referred to as the accounting cycle. List the steps of the accounting cycle in the sequence in which they are performed.

ANSWER:

- a. Record daily transactions in a journal.
- b. Post the journal entries to the accounts in the ledger.
- c. Prepare and post adjusting entries.
- d. Prepare the financial statements.
- e. Prepare and post-closing entries for the temporary accounts: revenues, expenses, gains, losses, and dividend accounts.

POINTS:

1

DIFFICULTY:

Challenging

LEARNING OBJECTIVES: ACCT.WHAL.16.3.1 - LO: 3.1

ACCT.WHAL.16.3.2 - LO: 3.2

NATIONAL STANDARDS: United States - BUSPROG: Communication

LOCAL STANDARDS: United States - OH - Default City - AICPA: FN-Decision Modeling

KEYWORDS:

Bloom's: Understanding

Chapter 3: Review of a Company's Accounting System

159. Special journals, including the sales, purchases, cash receipts, cash payments, and general journals, were discussed in the textbook. Indicate (a) the reasons why special journals may be used, and (b) which transactions would appear in each of the five journals.

- ANSWER:**
- a. Special journals (1) allow the accounting task to be divided, (2) reduce the time necessary to complete the various accounting activities, and (3) provide for a chronological listing of similar transactions.
 - b. Sales Journal - Used to record all (and only) sales of merchandise on account.
Purchases Journal - Used to record all (and only) purchases of merchandise on account.
Cash Receipts Journal - Used to record all cash receipts.
Cash Payments Journal - Used to record all cash payments.
General Journal - Used to record adjusting, closing, and reversing entries, as well as any other transactions not recorded in the special journals.

POINTS: 1

DIFFICULTY: Challenging

LEARNING OBJECTIVES: ACCT.WHAL.16.3.1 - LO: 3.1

NATIONAL STANDARDS: United States - BUSPROG: Communication

LOCAL STANDARDS: United States - OH - Default City - AICPA: FN-Decision Modeling

KEYWORDS: Bloom's: Understanding

160. Please (a) define the cash-basis accounting method and state how net income is determined using this method, (b) describe accrual accounting, and (c) indicate which of the two methods (i.e., cash or accrual) is recommended under GAAP.

- ANSWER:**
- a. Under cash-basis accounting, a company records revenues when it collects cash from sales and records expenses when it pays cash for its operations. Net income is the difference between cash receipts and cash payments.
 - b. Under accrual accounting, revenues are recognized in the period in which they are earned, and expenses are recorded in the period in which they are incurred. Net income is the difference between revenues earned and expenses incurred.
 - c. The accounting profession believes that accrual accounting is the most useful method for users of financial statements.

POINTS: 1

DIFFICULTY: Challenging

LEARNING OBJECTIVES: ACCT.WHAL.16.3.10 - LO: 3.11

NATIONAL STANDARDS: United States - BUSPROG: Communication

LOCAL STANDARDS: United States - OH - Default City - AICPA: FN-Measurement

KEYWORDS: Bloom's: Applying

Chapter 3: Review of a Company's Accounting System

161. The accrual basis of accounting is a system that attempts to measure changes in the resources and obligations of the entity, as those changes affect the accounting equation, regardless of the timing of actual cash flows.

Required:

First, describe the timing of revenue and expense recognition under the accrual basis versus the cash basis of accounting. Then, give two examples of (1) a revenue-related transaction and (2) an expense-related transaction that would be reported at significantly different points in time using the accrual basis versus the cash basis.

ANSWER: Revenue recognition occurs when the revenue is earned under the accrual basis of accounting. Under the cash basis, revenue is recognized only when cash is collected.

Example: A company sells a product and the customer agrees to pay 25% of the price each year for four years. Accrual accounting would record all of the sales revenue in year one. The cash basis system would recognize the revenue as it is collected, 25% in each of the four years.

Under the accrual basis, expenses are recorded as incurred in the process of helping to generate revenues. They are matched to (recognized in the same period as) the related revenues. The cash basis records costs as expenses in the period of the cash outflow.

Example: The purchase of computer software and hardware that will be used to upgrade systems controlling a manufacturing operation for the next five years would be initially recorded as an asset and then expensed over the five-year useful life in the accrual system. Using the cash basis, the computer costs would be expensed entirely in year one.

POINTS:

1

DIFFICULTY:

Challenging

LEARNING OBJECTIVES: ACCT.WHAL.16.3.10 - LO: 3.11

NATIONAL STANDARDS: United States - BUSPROG: Communication

LOCAL STANDARDS: United States - OH - Default City - AICPA: FN-Measurement

KEYWORDS:

Bloom's: Understanding