

# CHAPTER 4

## COMPLETING THE ACCOUNTING CYCLE

### SUMMARY OF QUESTIONS BY LEARNING OBJECTIVES AND BLOOM'S TAXONOMY

Item	LO	BT	Item	LO	BT	Item	LO	BT	Item	LO	BT	Item	LO	BT
<b>True-False Statements</b>														
1.	1	K	9.	2	K	17.	4	K	25.	6	C	<sup>sg</sup> 33.	2	K
2.	1	K	10.	2	K	18.	4	C	26.	6	K	<sup>sg</sup> 34.	3	K
3.	1	C	11.	2	K	19.	5	C	27.	6	K	<sup>sg</sup> 35.	6	C
4.	1	C	12.	2	K	20.	5	K	28.	6	K	<sup>sg</sup> 36.	6	K
5.	1	K	13.	2	K	21.	5	C	29.	6	K	<sup>sg</sup> 37.	6	K
6.	1	K	14.	2	K	22.	6	K	<sup>a</sup> 30.	7	K			
7.	1	C	15.	3	C	23.	6	C	<sup>sg</sup> 31.	1	K			
8.	2	K	16.	3	K	24.	6	C	<sup>sg</sup> 32.	2	K			
<b>Multiple Choice Questions</b>														
38.	1	K	66.	2	K	94.	3	C	122.	6	AN	150.	6	AP
39.	1	K	67.	2	K	95.	3	C	123.	6	AN	151.	6	AP
40.	1	K	68.	2	C	96.	3	C	124.	6	K	<sup>a</sup> 152.	7	K
41.	1	C	69.	2	K	97.	4	K	125.	6	K	<sup>a</sup> 153.	7	K
42.	1	C	70.	2	K	98.	4	K	126.	6	C	<sup>sg</sup> 154.	1	C
43.	1	K	71.	2	C	99.	4	K	127.	6	K	<sup>sg</sup> 155.	2	K
44.	1	C	72.	2	K	100.	4	K	128.	6	K	<sup>sg</sup> 156.	2	K
45.	1	K	73.	2	K	101.	4	K	129.	6	C	<sup>sg</sup> 157.	3	K
46.	1	K	74.	2	C	102.	4	K	130.	6	C	<sup>st</sup> 158.	4	K
47.	1	K	75.	2	C	103.	4	K	131.	6	K	<sup>sg</sup> 159.	4	K
48.	1	K	76.	2	C	104.	4	K	132.	6	K	<sup>st</sup> 160.	5	K
49.	1	K	77.	2	C	105.	4	K	133.	6	K	<sup>sg</sup> 161.	5	AN
50.	1	K	78.	2	C	106.	5	K	134.	6	K	<sup>st</sup> 162.	6	K
51.	1	C	79.	2	AN	107.	5	AN	135.	6	K	<sup>sg</sup> 163.	6	K
52.	1	K	80.	2	C	108.	5	K	136.	6	K	<sup>st,a</sup> 164.	7	K
53.	1	C	81.	2	C	109.	5	C	137.	6	K	165.	8	K
54.	1	AP	82.	2	C	110.	5	K	138.	6	C	166.	8	K
55.	1	C	83.	2	C	111.	5	AN	139.	1	AN	167.	8	K
56.	2	K	84.	2	AN	112.	5	AN	140.	6	AN	168.	8	K
57.	2	K	85.	2	C	113.	5	AN	141.	6	AN	169.	8	K
58.	2	K	86.	2	C	114.	5	AN	142.	6	AN	170.	8	K
59.	2	K	87.	3	K	115.	5	AN	143.	6	AN	171.	8	K
60.	2	K	88.	3	C	116.	6	AN	144.	6	AN	172.	8	K
61.	2	K	89.	3	K	117.	6	AN	145.	6	AN	173.	8	K
62.	2	K	90.	3	K	118.	6	AN	146.	6	K	174.	8	K
63.	2	K	91.	3	K	119.	6	AN	147.	6	K	175.	8	K
64.	2	K	92.	3	K	120.	6	AN	148.	6	K			
65.	2	K	93.	3	K	121.	6	AN	149.	6	K			

<sup>sg</sup> This question also appears in the Study Guide.

<sup>st</sup> This question also appears in a self-test at the student companion website.

<sup>a</sup> This question covers a topic in an appendix to the chapter.

**SUMMARY OF QUESTIONS BY LEARNING OBJECTIVES AND BLOOM'S TAXONOMY**

Brief Exercises														
176.	2	AN	179.	2	K	182.	5	AN	185.	6	AP			
177.	2	AN	180.	3	K	183.	6	AN	186.	6	K			
178.	2	AN	181.	5	AN	184.	6	AP	<sup>a</sup> 187.	7	AP			
Exercises														
188.	1	C	194.	1,6	AP	200.	2	AP	206.	5	AN	212.	6	AP
189.	1	C	194.	2	AN	201.	3	C	207.	5	AN	<sup>a</sup> 213.	7	AN
190.	1	AN	196.	2	AP	202.	3	AN	208.	5	AN	<sup>a</sup> 214.	7	AN
191.	1	AN	197.	2	AP	203.	4	C	209.	6	AP	<sup>a</sup> 215.	7	AN
192.	1	AN	198.	2	AP	204.	5	AN	210.	6	AN			
193.	1	AN	199.	2	AP	205.	5	AN	211.	6	AP			
Completion Statements														
216.	1	K	219.	2	K	222.	4	K	225.	6	K			
217.	1	K	220.	2	K	223.	6	K	226.	6	K			
218.	2	K	221.	3	K	224.	6	K	227.	6	K			
Matching														
228.	1-7	K												
Short-Answer Essay														
229.	1	K	231.	6	K	<sup>a</sup> 233.	7	K	225.	5	K			
230.	2	K	232.	6	K	234.	5	K						

**SUMMARY OF LEARNING OBJECTIVES BY QUESTION TYPE**

Item	Type	Item	Type	Item	Type	Item	Type	Item	Type	Item	Type	Item	Type
Learning Objective 1													
1.	TF	7.	TF	42.	MC	48.	MC	54.	MC	190.	Ex	217.	C
2.	TF	31.	TF	43.	MC	49.	MC	55.	MC	191.	Ex	228.	MA
3.	TF	38.	MC	44.	MC	50.	MC	139.	MC	192.	Ex	229.	SA
4.	TF	39.	MC	45.	MC	51.	MC	154.	MC	193.	Ex		
5.	TF	40.	MC	46.	MC	52.	MC	188.	Ex	194.	Ex		
6.	TF	41.	MC	47.	MC	53.	MC	189.	Ex	216.	C		
Learning Objective 2													
8.	TF	33.	TF	63.	MC	71.	MC	79.	MC	155.	MC	197.	Ex
9.	TF	56.	MC	64.	MC	72.	MC	80.	MC	156.	MC	198.	Ex
10.	TF	57.	MC	65.	MC	73.	MC	81.	MC	176.	BE	199.	Ex
11.	TF	58.	MC	66.	MC	74.	MC	82.	MC	177.	BE	200.	Ex
12.	TF	59.	MC	67.	MC	75.	MC	83.	MC	178.	BE	218.	C
13.	TF	60.	MC	68.	MC	76.	MC	84.	MC	179.	BE	<sup>219/220.</sup>	C
14.	TF	61.	MC	69.	MC	77.	MC	85.	MC	195.	Ex	228.	MA
32.	TF	62.	MC	70.	MC	78.	MC	86.	MC	196.	Ex	230.	SA
Learning Objective 3													
15.	TF	87.	MC	90.	MC	93.	MC	96.	MC	201.	Ex	228.	MA
16.	TF	88.	MC	91.	MC	94.	MC	157.	MC	202.	Ex		
34.	TF	89.	MC	92.	MC	95.	MC	180.	BE	221.	C		

**SUMMARY OF LEARNING OBJECTIVES BY QUESTION TYPE**

Learning Objective 4									
17. TF	98. MC	101. MC	104. MC	159. MC	228. MA				
18. TF	99. MC	102. MC	105. MC	203. Ex					
97. MC	100. MC	103. MC	158. MC	222. C					
Learning Objective 5									
19. TF	107. MC	111. MC	115. MC	182. BE	207. Ex	235. SA			
20. TF	108. MC	112. MC	160. MC	204. Ex	208. Ex				
21. TF	109. MC	113. MC	161. MC	205. Ex	228. MA				
106. MC	110. MC	114. MC	181. BE	206. Ex	234. SA				
Learning Objective 6									
22. TF	37. TF	125. MC	135. MC	145. MC	184. BE	225. C			
23. TF	116. MC	126. MC	136. MC	146. MC	185. BE	226. C			
24. TF	117. MC	127. MC	137. MC	147. MC	186. BE	227. C			
25. TF	118. MC	128. MC	138. MC	148. MC	183. Ex	228. MA			
26. TF	119. MC	129. MC		149. MC	209. Ex	231. SA			
27. TF	120. MC	130. MC	140. MC	150. MC	210. Ex	232. SA			
28. TF	121. MC	131. MC	141. MC	151. MC	211. Ex				
29. TF	122. MC	132. MC	142. MC	162. MC	212. Ex				
35. TF	123. MC	133. MC	143. MC	163. MC	223. C				
36. TF	124. MC	134. MC	144. MC	183. BE	224. C				
Learning Objective <sup>a</sup> 7									
<sup>a</sup> 30. TF	<sup>a</sup> 153. MC	<sup>a</sup> 167. MC	<sup>a</sup> 213. Ex	<sup>a</sup> 215. Ex	228. MA				
<sup>a</sup> 152. MC	<sup>a</sup> 164. MC	<sup>a</sup> 187. BE	<sup>a</sup> 214. Ex	233. SA					
Learning Objective <sup>a</sup> 8									
<sup>a</sup> 165. MC	<sup>a</sup> 167. MC	<sup>a</sup> 169. MC	<sup>a</sup> 171. MC	<sup>a</sup> 173. MC	<sup>a</sup> 175. MC				
<sup>a</sup> 166. MC	<sup>a</sup> 168. MC	<sup>a</sup> 170. MC	<sup>a</sup> 172. MC	<sup>a</sup> 174. MC					

Note: TF = True-False                      BE = Brief Exercise                      C = Completion  
 MC = Multiple Choice                      Ex = Exercise                      MA = Matching  
 SA = Short-Answer Essay

## CHAPTER LEARNING OBJECTIVES

1. **Prepare a worksheet.** The steps in preparing a worksheet follows. (a) Prepare a trial balance on the worksheet, (b) Enter the adjustments in the adjustments columns, (c) Enter adjusted balances in the adjusted trial balance columns, (d) Extend adjusted trial balance amounts to appropriate financial statement columns, and (e) Total the statement columns, compute net income (or net loss), and complete the worksheet.
2. **Explain the process of closing the books.** Closing the books occurs at the end of an accounting period. The process is to journalize and post closing entries and then underline and balance all accounts. In closing the books, companies make separate entries to close revenues and expenses to Income Summary, Income Summary to Owner's Capital, and Owner's Drawings to Owner's Capital. Only temporary accounts are closed.
3. **Describe the content and purpose of a post-closing trial balance.** A post-closing trial balance contains the balances in permanent accounts that are carried forward to the next accounting period. The purpose of this trial balance is to prove the equality of these balances.
4. **State the required steps in the accounting cycle.** The required steps in the accounting cycle are (1) analyze business transactions, (2) journalize the transactions, (3) post to ledger accounts, (4) prepare a trial balance, (5) journalize and post adjusting entries, (6) prepare an adjusted trial balance, (7) prepare financial statements, (8) journalize and post closing entries, and (9) prepare a post-closing trial balance.
5. **Explain the approaches to preparing correcting entries.** One way to determine the correcting entry is to compare the incorrect entry with the correct entry. After comparison, the company makes a correcting entry to correct the accounts. An alternative to a correcting entry is to reverse the incorrect entry and then prepare the correct entry.
6. **Identify the sections of a classified balance sheet.** A classified balance sheet categorizes assets as current assets; long-term investments; property, plant, and equipment; and intangibles. Liabilities are classified as either current or long-term. There is also an owner's (owners') equity section, which varies with the form of business organization.
- <sup>a</sup>7. **Prepare reversing entries.** Reversing entries are the opposite of the adjusting entries made in the preceding period. Some companies choose to make reversing entries at the beginning of a new accounting period to simplify the recording of later transactions related to the adjusting entries. In most cases, only accrued adjusting entries are reversed.

## TRUE-FALSE STATEMENTS

1. A worksheet is a mandatory form that must be prepared along with an income statement and balance sheet.

Ans: F, LO: 1, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Industry/Sector Perspective, AICPA FN: Measurement, AICPA PC: Problem Solving, IMA: FSA

2. If a worksheet is used, financial statements can be prepared before adjusting entries are journalized.

Ans: T, LO: 1, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Industry/Sector Perspective, AICPA FN: Measurement, AICPA PC: Problem Solving, IMA: FSA

3. If total credits in the income statement columns of a worksheet exceed total debits, the enterprise has net income.

Ans: T, LO: 1, Bloom: C, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Industry/Sector Perspective, AICPA FN: Reporting, AICPA PC: Problem Solving, IMA: Reporting

4. It is not necessary to prepare formal financial statements if a worksheet has been prepared because financial position and net income are shown on the worksheet.

Ans: F, LO: 1, Bloom: C, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

5. The adjustments on a worksheet can be posted directly to the accounts in the ledger from the worksheet.

Ans: F, LO: 1, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Industry/Sector Perspective, AICPA FN: Measurement, AICPA PC: Problem Solving, IMA: FSA

6. The adjusted trial balance columns of a worksheet are obtained by subtracting the adjustment columns from the trial balance columns.

Ans: F, SO: 1, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Industry/Sector Perspective, AICPA FN: Measurement, AICPA PC: Problem Solving, IMA: FSA

7. The balance of the depreciation expense account will appear in the income statement debit column of a worksheet.

Ans: T, LO: 1, Bloom: C, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Industry/Sector Perspective, AICPA FN: Measurement, AICPA PC: Problem Solving, IMA: FSA

8. Closing entries are unnecessary if the business plans to continue operating in the future and issue financial statements each year.

Ans: F, LO: 2, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory, AICPA FN: Measurement, AICPA PC: Problem Solving, IMA: FSA

9. The owner's drawings account is closed to the Income Summary account in order to properly determine net income (or loss) for the period.

Ans: F, LO: 2, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory, AICPA FN: Measurement, AICPA PC: Problem Solving, IMA: FSA

10. After closing entries have been journalized and posted, all temporary accounts in the ledger should have zero balances.

Ans: T, LO: 2, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory, AICPA FN: Measurement, AICPA PC: Problem Solving, IMA: FSA

11. Closing revenue and expense accounts to the Income Summary account is an optional bookkeeping procedure.

Ans: F, LO: 2, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory, AICPA FN: Measurement, AICPA PC: Problem Solving, IMA: FSA

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12. Closing the drawings account to Owner's Capital is not necessary if net income is greater than owner's drawings during the period.

Ans: F, LO: 2, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory, AICPA FN: Reporting, AICPA PC: Problem Solving, IMA: Reporting

13. The owner's drawings account is a permanent account whose balance is carried forward to the next accounting period.

Ans: F, LO: 2, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory, AICPA FN: Reporting, AICPA PC: Problem Solving, IMA: Reporting

14. Closing entries are journalized after adjusting entries have been journalized.

Ans: T, LO: 2, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory, AICPA FN: Measurement, AICPA PC: Problem Solving, IMA: FSA

15. The amounts appearing on an income statement should agree with the amounts appearing on the post-closing trial balance.

Ans: F, LO: 3, Bloom: C, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory, AICPA FN: Reporting, AICPA PC: Problem Solving, IMA: Reporting

16. The post-closing trial balance is entered in the first two columns of a worksheet.

Ans: F, LO: 3, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory, AICPA FN: Reporting, AICPA PC: Problem Solving, IMA: Reporting

17. A business entity has only one accounting cycle over its economic existence.

Ans: F, LO: 4, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory, AICPA FN: Reporting, AICPA PC: Problem Solving, IMA: Reporting

18. The accounting cycle begins at the start of a new accounting period.

Ans: T, LO: 4, Bloom: C, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Industry/Sector Perspective, AICPA FN: Measurement, AICPA PC: Problem Solving, IMA: FSA

19. Both correcting entries and adjusting entries always affect at least one balance sheet account and one income statement account.

Ans: F, LO: 5, Bloom: C, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Industry/Sector Perspective, AICPA FN: Measurement, AICPA PC: Problem Solving, IMA: FSA

20. Correcting entries are made any time an error is discovered even though it may not be at the end of an accounting period.

Ans: T, LO: 5, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Industry/Sector Perspective, AICPA FN: Measurement, AICPA PC: Problem Solving, IMA: FSA

21. An incorrect debit to Accounts Receivable instead of the correct account Notes Receivable does not require a correcting entry because total assets will not be misstated.

Ans: F, LO: 5, Bloom: C, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory, AICPA FN: Reporting, AICPA PC: Problem Solving, IMA: Reporting

22. In a corporation, Retained Earnings is a part of owners' equity.

Ans: T, LO: 6, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory, AICPA FN: Reporting, AICPA PC: Problem Solving, IMA: Reporting

23. A company's operating cycle and fiscal year are usually the same length of time.

Ans: F, LO: 6, Bloom: C, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Industry/Sector Perspective, AICPA FN: Measurement, AICPA PC: Problem Solving, IMA: FSA

24. Cash and supplies are both classified as current assets.

Ans: T, LO: 6, Bloom: C, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory, AICPA FN: Reporting, AICPA PC: Problem Solving, IMA: Reporting

25. Long-term investments would appear in the property, plant, and equipment section of the balance sheet.

Ans: F, LO: 6, Bloom: C, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory, AICPA FN: Reporting, AICPA PC: Problem Solving, IMA: Reporting

26. A liability is classified as a current liability if the company is to pay it within the forthcoming year.

Ans: T, LO: 6, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory, AICPA FN: Reporting, AICPA PC: Problem Solving, IMA: Reporting

27. A company's liquidity is concerned with the relationship between long-term investments and long-term debt.

Ans: F, LO: 6, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory, AICPA FN: Risk Analysis, AICPA PC: Problem Solving, IMA: Business Economics

28. Current assets are customarily the first items listed on a classified balance sheet.

Ans: T, LO: 6, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory, AICPA FN: Reporting, AICPA PC: Problem Solving, IMA: Reporting

29. The operating cycle of a company is determined by the number of years the company has been operating.

Ans: F, LO: 6, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory, AICPA FN: Reporting, AICPA PC: Problem Solving, IMA: Reporting

<sup>a</sup>30. Reversing entries are an optional bookkeeping procedure.

Ans: T, LO: 7, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Industry/Sector Perspective, AICPA FN: Measurement, AICPA PC: Problem Solving, IMA: FSA

31. After a worksheet has been completed, the statement columns contain all data that are required for the preparation of financial statements.

Ans: T, LO: 1, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory, AICPA FN: Reporting, AICPA PC: Problem Solving, IMA: Reporting

32. To close net income to owner's capital, Income Summary is debited and Owner's Capital is credited.

Ans: T, LO: 2, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory, AICPA FN: Measurement, AICPA PC: Problem Solving, IMA: FSA

33. In one closing entry, Owner's Drawings is credited and Income Summary is debited.

Ans: F, LO: 2, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory, AICPA FN: Measurement, AICPA PC: Problem Solving, IMA: FSA

34. The post-closing trial balance will contain only owner's equity statement accounts and balance sheet accounts.

Ans: F, LO: 3, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory, AICPA FN: Measurement, AICPA PC: Problem Solving, IMA: FSA

35. The operating cycle of a company is the average time required to collect the receivables resulting from producing revenues.

Ans: F, LO: 6, Bloom: C, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Industry/Sector Perspective, AICPA FN: Measurement, AICPA PC: Problem Solving, IMA: Business Economics

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36. Current assets are listed in the order of liquidity.

Ans: T, LO: 6, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory, AICPA FN: Reporting, AICPA PC: Problem Solving, IMA: Reporting

37. Current liabilities are obligations that the company is to pay within the coming year.

Ans: T, LO: 6, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory, AICPA FN: Reporting, AICPA PC: Problem Solving, IMA: Reporting

### Answers to True-False Statements

Item	Ans.	Item	Ans.	Item	Ans.	Item	Ans.	Item	Ans.	Item	Ans.	Item	Ans.
1.	F	7.	T	13.	F	19.	F	25.	F	31.	T	37.	T
2.	T	8.	F	14.	T	20.	T	26.	T	32.	T		
3.	T	9.	F	15.	F	21.	F	27.	F	33.	F		
4.	F	10.	T	16.	F	22.	T	28.	T	34.	F		
5.	F	11.	F	17.	F	23.	F	29.	F	35.	F		
6.	F	12.	F	18.	T	24.	T	<sup>a</sup> 30.	T	36.	T		

### MULTIPLE CHOICE QUESTIONS

38. Preparing a worksheet involves

- two steps.
- three steps.
- four steps.
- five steps.

Ans: D, LO: 1, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Industry/Sector Perspective, AICPA FN: Measurement, AICPA PC: Problem Solving, IMA: FSA

39. The adjustments entered in the adjustments columns of a worksheet are

- not journalized.
- posted to the ledger but not journalized.
- not journalized until after the financial statements are prepared.
- journalized before the worksheet is completed.

Ans: C, LO: 1, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Industry/Sector Perspective, AICPA FN: Measurement, AICPA PC: Problem Solving, IMA: FSA

40. The information for preparing a trial balance on a worksheet is obtained from

- financial statements.
- general ledger accounts.
- general journal entries.
- business documents.

Ans: B, LO: 1, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Industry/Sector Perspective, AICPA FN: Measurement, AICPA PC: Problem Solving, IMA: FSA

41. After the adjusting entries are journalized and posted to the accounts in the general ledger, the balance of each account should agree with the balance shown on the

- adjusted trial balance.
- post-closing trial balance.
- the general journal.
- adjustments columns of the worksheet.

Ans: A, LO: 1, Bloom: C, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Industry/Sector Perspective, AICPA FN: Measurement, AICPA PC: Problem Solving, IMA: FSA

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42. If the total debit column exceeds the total credit column of the income statement columns on a worksheet, then the company has
- earned net income for the period.
  - an error because debits do not equal credits.
  - suffered a net loss for the period.
  - to make an adjusting entry.

Ans: C, LO: 1, Bloom: C, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory, AICPA FN: Reporting, AICPA PC: Problem Solving, IMA: Reporting

43. A worksheet is a multiple column form that facilitates the
- identification of events.
  - measurement process.
  - preparation of financial statements.
  - analysis process.

Ans: C, LO: 1, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Industry/Sector Perspective, AICPA FN: Measurement, AICPA PC: Problem Solving, IMA: FSA

44. Which of the following companies would be least likely to use a worksheet to facilitate the adjustment process?
- Large company with numerous accounts
  - Small company with numerous accounts
  - All companies, since worksheets are required under generally accepted accounting principles
  - Small company with few accounts

Ans: D, LO: 1, Bloom: C, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Industry/Sector Perspective, AICPA FN: Measurement, AICPA PC: Problem Solving, IMA: FSA

45. A worksheet can be thought of as a(n)
- permanent accounting record.
  - optional device used by accountants.
  - part of the general ledger.
  - part of the journal.

Ans: B, LO: 1, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Industry/Sector Perspective, AICPA FN: Measurement, AICPA PC: Problem Solving, IMA: FSA

46. The account, Supplies, will appear in the following debit columns of the worksheet.
- Trial balance
  - Adjusted trial balance
  - Balance sheet
  - All of these answer choices are correct

Ans: D, LO: 1, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory, AICPA FN: Reporting, AICPA PC: Problem Solving, IMA: Reporting

47. When constructing a worksheet, accounts are often needed that are not listed in the trial balance already entered on the worksheet from the ledger. Where should these additional accounts be shown on the worksheet?
- They should be inserted in alphabetical order into the trial balance accounts already given.
  - They should be inserted in chart of account order into the trial balance already given.
  - They should be inserted on the lines immediately below the trial balance totals.
  - They should not be inserted on the trial balance until the next accounting period.

Ans: C, LO: 1, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Industry/Sector Perspective, AICPA FN: Measurement, AICPA PC: Problem Solving, IMA: FSA

#### 4 - 10 Test Bank for Accounting Principles, Eleventh Edition

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48. When using a worksheet, adjusting entries are journalized
- after the worksheet is completed and before financial statements are prepared.
  - before the adjustments are entered on to the worksheet.
  - after the worksheet is completed and after financial statements have been prepared.
  - before the adjusted trial balance is extended to the proper financial statement columns.

Ans: C, LO: 1, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Industry/Sector Perspective, AICPA FN: Measurement, AICPA PC: Problem Solving, IMA: FSA

49. Assuming that there is a net loss for the period, debits equal credits in all but which section of the worksheet?
- Income statement columns
  - Adjustments columns
  - Trial balance columns
  - Adjusted trial balance columns

Ans: A, LO: 1, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory, AICPA FN: Reporting, AICPA PC: Problem Solving, IMA: Reporting

50. Adjusting entries are prepared from
- source documents.
  - the adjustments columns of the worksheet.
  - the general ledger.
  - last year's worksheet.

Ans: B, LO: 1, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Industry/Sector Perspective, AICPA FN: Measurement, AICPA PC: Problem Solving, IMA: FSA

51. The net income (or loss) for the period
- is found by computing the difference between the income statement credit column and the balance sheet credit column on the worksheet.
  - cannot be found on the worksheet.
  - is found by computing the difference between the income statement columns of the worksheet.
  - is found by computing the difference between the trial balance totals and the adjusted trial balance totals.

Ans: C, LO: 1, Bloom: C, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory, AICPA FN: Reporting, AICPA PC: Problem Solving, IMA: Reporting

52. The worksheet does **not** show
- net income or loss for the period.
  - revenue and expense account balances.
  - the ending balance in the owner's capital account.
  - the trial balance before adjustments.

Ans: C, LO: 1, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory, AICPA FN: Reporting, AICPA PC: Problem Solving, IMA: Reporting

53. If the total debits exceed total credits in the balance sheet columns of the worksheet, owner's equity
- will increase because net income has occurred.
  - will decrease because a net loss has occurred.
  - is in error because a mistake has occurred.
  - will not be affected.

Ans: A, LO: 1, Bloom: C, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory, AICPA FN: Reporting, AICPA PC: Problem Solving, IMA: Reporting

54. The income statement and balance sheet columns of Iron and Wine Company's worksheet reflect the following totals:

	Income Statement		Balance Sheet	
	Dr.	Cr.	Dr.	Cr.
Totals	\$72,000	\$44,000	\$60,000	\$88,000

The net income (or loss) for the period is

- \$44,000 income.
- \$28,000 income.
- \$28,000 loss.
- not determinable.

Ans: C, LO: 1, Bloom: AP, Difficulty: Medium, Min: 2, AACSB: Analytic, AICPA BB: Legal/Regulatory, AICPA FN: Reporting, AICPA PC: Problem Solving, IMA: Reporting

55. The income statement and balance sheet columns of Iron and Wine Company's worksheet reflect the following totals:

	Income Statement		Balance Sheet	
	Dr.	Cr.	Dr.	Cr.
Totals	\$72,000	\$48,000	\$60,000	\$84,000

To enter the net income (or loss) for the period into the above worksheet requires an entry to the

- income statement debit column and the balance sheet credit column.
- income statement credit column and the balance sheet debit column.
- income statement debit column and the income statement credit column.
- balance sheet debit column and the balance sheet credit column.

Ans: B, LO: 1, Bloom: C, Difficulty: Medium, Min: 2, AACSB: Analytic, AICPA BB: Legal/Regulatory, AICPA FN: Reporting, AICPA PC: Problem Solving, IMA: Reporting

56. Closing entries are necessary for
- permanent accounts only.
  - temporary accounts only.
  - both permanent and temporary accounts.
  - permanent or real accounts only.

Ans: B, LO: 2, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory, AICPA FN: Measurement, AICPA PC: Problem Solving, IMA: FSA

57. Each of the following accounts is closed to Income Summary **except**
- Expenses.
  - Owner's Drawings.
  - Revenues.
  - All of these are closed to Income Summary.

Ans: B, LO: 2, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory, AICPA FN: Measurement, AICPA PC: Problem Solving, IMA: FSA

## 4 - 12 Test Bank for Accounting Principles, Eleventh Edition

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58. Closing entries are made
- in order to terminate the business as an operating entity.
  - so that all assets, liabilities, and owner's capital accounts will have zero balances when the next accounting period starts.
  - in order to transfer net income (or loss) and owner's drawings to the owner's capital account.
  - so that financial statements can be prepared.

Ans: C, LO: 2, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory, AICPA FN: Measurement, AICPA PC: Problem Solving, IMA: FSA

59. Closing entries are
- an optional step in the accounting cycle.
  - posted to the ledger accounts from the worksheet.
  - made to close permanent or real accounts.
  - journalized in the general journal.

Ans: D, LO: 2, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory, AICPA FN: Measurement, AICPA PC: Problem Solving, IMA: FSA

60. The income summary account
- is a permanent account.
  - appears on the balance sheet.
  - appears on the income statement.
  - is a temporary account.

Ans: D, LO: 2, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory, AICPA FN: Measurement, AICPA PC: Problem Solving, IMA: FSA

61. If Income Summary has a credit balance after revenues and expenses have been closed into it, the closing entry for Income Summary will include a
- debit to the owner's capital account.
  - debit to the owner's drawings account.
  - credit to the owner's capital account.
  - credit to the owner's drawings account.

Ans: C, LO: 2, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory, AICPA FN: Reporting, AICPA PC: Problem Solving, IMA: Reporting

62. Closing entries are journalized and posted
- before the financial statements are prepared.
  - after the financial statements are prepared.
  - at management's discretion.
  - at the end of each interim accounting period.

Ans: B, LO: 2, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Industry/Sector Perspective, AICPA FN: Measurement, AICPA PC: Problem Solving, IMA: FSA

63. Closing entries
- are prepared before the financial statements.
  - reduce the number of permanent accounts.
  - cause the revenue and expense accounts to have zero balances.
  - summarize the activity in every account.

Ans: C, LO: 2, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Industry/Sector Perspective, AICPA FN: Measurement, AICPA PC: Problem Solving, IMA: FSA

64. Which of the following is a true statement about closing the books of a proprietorship?
- Expenses are closed to the Expense Summary account.
  - Only revenues are closed to the Income Summary account.
  - Revenues and expenses are closed to the Income Summary account.
  - Revenues, expenses, and the owner's drawings account are closed to the Income Summary account.

Ans: C, LO: 2, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Industry/Sector Perspective, AICPA FN: Measurement, AICPA PC: Problem Solving, IMA: FSA

65. Closing entries may be prepared from all of the following **except**
- Adjusted balances in the ledger
  - Income statement and balance sheet columns of the worksheet
  - Balance sheet
  - Income and owner's equity statements

Ans: C, LO: 2, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Industry/Sector Perspective, AICPA FN: Measurement, AICPA PC: Problem Solving, IMA: FSA

66. In order to close the owner's drawings account, the
- income summary account should be debited.
  - income summary account should be credited.
  - owner's capital account should be credited.
  - owner's capital account should be debited.

Ans: D, LO: 2, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Industry/Sector Perspective, AICPA FN: Measurement, AICPA PC: Problem Solving, IMA: FSA

67. In preparing closing entries
- each revenue account will be credited.
  - each expense account will be credited.
  - the owner's capital account will be debited if there is net income for the period.
  - the owner's drawings account will be debited.

Ans: B, LO: 2, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Industry/Sector Perspective, AICPA FN: Measurement, AICPA PC: Problem Solving, IMA: FSA

68. The most efficient way to accomplish closing entries is to
- credit the income summary account for each revenue account balance.
  - debit the income summary account for each expense account balance.
  - credit the owner's drawings balance directly to the income summary account.
  - credit the income summary account for total revenues and debit the income summary account for total expenses.

Ans: D, LO: 2, Bloom: C, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Industry/Sector Perspective, AICPA FN: Measurement, AICPA PC: Problem Solving, IMA: FSA

69. The closing entry process consists of closing
- all asset and liability accounts.
  - out the owner's capital account.
  - all permanent accounts.
  - all temporary accounts.

Ans: D, LO: 2, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Industry/Sector Perspective, AICPA FN: Measurement, AICPA PC: Problem Solving, IMA: FSA

#### 4 - 14 Test Bank for Accounting Principles, Eleventh Edition

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70. The final closing entry to be journalized is typically the entry that closes the
- revenue accounts.
  - owner's drawings account.
  - owner's capital account.
  - expense accounts.

Ans: B, LO: 2, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Industry/Sector Perspective, AICPA FN: Measurement, AICPA PC: Problem Solving, IMA: FSA

71. An error has occurred in the closing entry process if
- revenue and expense accounts have zero balances.
  - the owner's capital account is credited for the amount of net income.
  - the owner's drawings account is closed to the owner's capital account.
  - the balance sheet accounts have zero balances.

Ans: D, LO: 2, Bloom: C, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory, AICPA FN: Measurement, AICPA PC: Problem Solving, IMA: FSA

72. The Income Summary account is an important account that is used
- during interim periods.
  - in preparing adjusting entries.
  - annually in preparing closing entries.
  - annually in preparing correcting entries.

Ans: C, LO: 2, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Industry/Sector Perspective, AICPA FN: Measurement, AICPA PC: Problem Solving, IMA: FSA

73. The balance in the income summary account before it is closed will be equal to
- the net income or loss on the income statement.
  - the beginning balance in the owner's capital account.
  - the ending balance in the owner's capital account.
  - zero.

Ans: A, LO: 2, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Industry/Sector Perspective, AICPA FN: Measurement, AICPA PC: Problem Solving, IMA: FSA

74. After closing entries are posted, the balance in the owner's capital account in the ledger will be equal to
- the beginning owner's capital reported on the owner's equity statement.
  - the amount of the owner's capital reported on the balance sheet.
  - zero.
  - the net income for the period.

Ans: B, LO: 2, Bloom: C, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory, AICPA FN: Reporting, AICPA PC: Problem Solving, IMA: Reporting

75. The income statement for the month of June, 2014 of Camera Obscura Enterprises contains the following information:

Revenues		\$7,000
Expenses:		
Salaries and Wages Expense	\$3,000	
Rent Expense	1,500	
Advertising Expense	800	
Supplies Expense	300	
Insurance Expense	<u>100</u>	
Total expenses		<u>5,700</u>
Net income		<u>\$1,300</u>

The entry to close the revenue account includes a

- debit to Income Summary for \$1,300.
- credit to Income Summary for \$1,300.
- debit to Income Summary for \$7,000.
- credit to Income Summary for \$7,000.

Ans: D, LO: 2, Bloom: C, Difficulty: Medium, Min: 3, AACSB: Analytic, AICPA BB: Legal/Regulatory, AICPA FN: Reporting, AICPA PC: Problem Solving, IMA: Reporting

76. The income statement for the month of June, 2014 of Camera Obscura Enterprises contains the following information:

Revenues		\$7,000
Expenses:		
Salaries and Wages Expense	\$3,000	
Rent Expense	1,500	
Advertising Expense	800	
Supplies Expense	300	
Insurance Expense	<u>100</u>	
Total expenses		<u>5,700</u>
Net income		<u>\$1,300</u>

The entry to close the expense accounts includes a

- debit to Income Summary for \$1,300.
- credit to Rent Expense for \$1,500.
- credit to Income Summary for \$5,700.
- debit to Salaries and Wages Expense for \$3,000.

Ans: B, LO: 2, Bloom: C, Difficulty: Medium, Min: 3, AACSB: Analytic, AICPA BB: Legal/Regulatory, AICPA FN: Reporting, AICPA PC: Problem Solving, IMA: Reporting

#### 4 - 16 Test Bank for Accounting Principles, Eleventh Edition

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77. The income statement for the month of June, 2014 of Camera Obscura Enterprises contains the following information:

Revenues		\$7,000
Expenses:		
Salaries and Wages Expense	\$3,000	
Rent Expense	1,500	
Advertising Expense	800	
Supplies Expense	300	
Insurance Expense	<u>100</u>	
Total expenses		<u>5,700</u>
Net income		<u>\$1,300</u>

After the revenue and expense accounts have been closed, the balance in Income Summary will be

- \$0.
- a debit balance of \$1,300.
- a credit balance of \$1,300.
- a credit balance of \$7,000.

Ans: C, LO: 2, Bloom: C, Difficulty: Medium, Min: 3, AACSB: Analytic, AICPA BB: Legal/Regulatory, AICPA FN: Reporting, AICPA PC: Problem Solving, IMA: Reporting

Solution:  $\$7,000 - \$5,700 = \$1,300$

78. The income statement for the month of June, 2014 of Camera Obscura Enterprises contains the following information:

Revenues		\$7,000
Expenses:		
Salaries and Wages Expense	\$3,000	
Rent Expense	1,500	
Advertising Expense	800	
Supplies Expense	300	
Insurance Expense	<u>100</u>	
Total expenses		<u>5,700</u>
Net income		<u>\$1,300</u>

The entry to close Income Summary to Owner's, Capital includes

- a debit to Revenues for \$7,000.
- credits to Expenses totalling \$5,700.
- a credit to Income Summary for \$1,300
- a credit to Owner's Capital for \$1,300.

Ans: D, LO: 2, Bloom: C, Difficulty: Medium, Min: 3, AACSB: Analytic, AICPA BB: Legal/Regulatory, AICPA FN: Reporting, AICPA PC: Problem Solving, IMA: Reporting



79. The income statement for the month of June, 2014 of Camera Obscura Enterprises contains the following information:

Revenues		\$7,000
Expenses:		
Salries and Wages Expense	\$3,000	
Rent Expense	1,500	
Advertising Expense	800	
Supplies Expense	300	
Insurance Expense	<u>100</u>	
Total expenses		<u>5,700</u>
Net income		<u>\$1,300</u>

At June 1, 2014, Camera Obscura reported owner's equity of \$35,000. The company had no owner drawings during June. At June 30, 2014, the company will report owner's equity of

- \$29,300.
- \$35,000.
- \$36,300.
- \$42,000.

Ans: C, LO: 2, Bloom: AN, Difficulty: Medium, Min: 3, AACSB: Analytic, AICPA BB: Legal/Regulatory, AICPA FN: Reporting, AICPA PC: Problem Solving, IMA: Reporting

Solution: \$35,000 + \$1,300 = \$36,300

80. The income statement for the year 2014 of Fugazi Co. contains the following information:

Revenues		\$70,000
Expenses:		
Salaries and Wages Expense	\$45,000	
Rent Expense	12,000	
Advertising Expense	10,000	
Supplies Expense	6,000	
Utilities Expense	2,500	
Insurance Expense	<u>2,000</u>	
Total expenses		<u>77,500</u>
Net income (loss)		<u>\$ (7,500)</u>

The entry to close the revenue account includes a

- debit to Income Summary for \$7,500.
- credit to Income Summary for \$7,500.
- debit to Revenues for \$70,000.
- credit to Revenues for \$70,000.

Ans: C, LO: 2, Bloom: C, Difficulty: Medium, Min: 3, AACSB: Analytic, AICPA BB: Legal/Regulatory, AICPA FN: Reporting, AICPA PC: Problem Solving, IMA: Reporting

81. The income statement for the year 2014 of Fugazi Co. contains the following information:

Revenues		\$70,000
Expenses:		
Salaries and Wages Expense	\$45,000	
Rent Expense	12,000	
Advertising Expense	10,000	
Supplies Expense	6,000	
Utilities Expense	2,500	

#### 4 - 18 Test Bank for Accounting Principles, Eleventh Edition

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Insurance Expense	<u>2,000</u>	
Total expenses		<u>77,500</u>
Net income (loss)		<u><u>\$ (7,500)</u></u>

The entry to close the expense accounts includes a

- debit to Income Summary for \$7,500.
- credit to Income Summary for \$7,500.
- debit to Income Summary for \$77,500.
- debit to Utilities Expense for \$2,500.

Ans: C, LO: 2, Bloom: C, Difficulty: Medium, Min: 3, AACSB: Analytic, AICPA BB: Legal/Regulatory, AICPA FN: Reporting, AICPA PC: Problem Solving, IMA: Reporting

82. The income statement for the year 2014 of Fugazi Co. contains the following information:

Revenues		\$70,000
Expenses:		
Salaries and Wages Expense	\$45,000	
Rent Expense	12,000	
Advertising Expense	10,000	
Supplies Expense	6,000	
Utilities Expense	2,500	
Insurance Expense	<u>2,000</u>	
Total expenses		<u>77,500</u>
Net income (loss)		<u><u>\$ (7,500)</u></u>

After the revenue and expense accounts have been closed, the balance in Income Summary will be

- \$0.
- a debit balance of \$7,500.
- a credit balance of \$7,500.
- a credit balance of \$70,000.

Ans: B, LO: 2, Bloom: C, Difficulty: Medium, Min: 3, AACSB: Analytic, AICPA BB: Legal/Regulatory, AICPA FN: Reporting, AICPA PC: Problem Solving, IMA: Reporting

83. The income statement for the year 2014 of Fugazi Co. contains the following information:

Revenues		\$70,000
Expenses:		
Salaries and Wages Expense	\$45,000	
Rent Expense	12,000	
Advertising Expense	10,000	
Supplies Expense	6,000	
Utilities Expense	2,500	
Insurance Expense	<u>2,000</u>	
Total expenses		<u>77,500</u>
Net income (loss)		<u><u>\$ (7,500)</u></u>

The entry to close Income Summary to Owner's Capital includes

- a debit to Revenue for \$70,000.
- credits to Expenses totalling \$77,500.
- a credit to Income Summary for \$7,500.
- a credit to Owner's Capital for \$7,500.

Ans: C, LO: 2, Bloom: C, Difficulty: Medium, Min: 3, AACSB: Analytic, AICPA BB: Legal/Regulatory, AICPA FN: Reporting, AICPA PC: Problem Solving, IMA: Reporting

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84. The income statement for the year 2014 of Fugazi Co. contains the following information:

Revenues		\$70,000
Expenses:		
Salaries and Wages Expense	\$45,000	
Rent Expense	12,000	
Advertising Expense	10,000	
Supplies Expense	6,000	
Utilities Expense	2,500	
Insurance Expense	<u>2,000</u>	
Total expenses		<u>77,500</u>
Net income (loss)		<u>\$ (7,500)</u>

At January 1, 2014, Fugazi reported owner's equity of \$50,000. Owner drawings for the year totalled \$10,000. At December 31, 2014, the company will report owner's equity of

- \$17,500.
- \$32,500.
- \$40,000.
- \$42,500.

Ans: B, LO: 2, Bloom: AN, Difficulty: Medium, Min: 3, AACSB: Analytic, AICPA BB: Legal/Regulatory, AICPA FN: Reporting, AICPA PC: Problem Solving, IMA: Reporting

Solution: \$50,000 – \$10,000 – \$7,500 = \$32,500

85. The income statement for the year 2014 of Fugazi Co. contains the following information:

Revenues		\$70,000
Expenses:		
Salaries and Wages Expense	\$45,000	
Rent Expense	12,000	
Advertising Expense	10,000	
Supplies Expense	6,000	
Utilities Expense	2,500	
Insurance Expense	<u>2,000</u>	
Total expenses		<u>77,500</u>
Net income (loss)		<u>\$ (7,500)</u>

After all closing entries have been posted, the Income Summary account will have a balance of

- \$0.
- \$7,500 debit.
- \$7,500 credit.
- \$77,500 credit.

Ans: A, LO: 2, Bloom: C, Difficulty: Medium, Min: 3, AACSB: Analytic, AICPA BB: Legal/Regulatory, AICPA FN: Reporting, AICPA PC: Problem Solving, IMA: Reporting

#### 4 - 20 Test Bank for Accounting Principles, Eleventh Edition

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86. The income statement for the year 2014 of Fugazi Co. contains the following information:

Revenues		\$70,000
Expenses:		
Salaries and Wages Expense	\$45,000	
Rent Expense	12,000	
Advertising Expense	10,000	
Supplies Expense	6,000	
Utilities Expense	2,500	
Insurance Expense	<u>2,000</u>	
Total expenses		<u>77,500</u>
Net income (loss)		<u>\$ (7,500)</u>

After all closing entries have been posted, the revenue account will have a balance of

- \$0.
- \$70,000 credit.
- \$70,000 debit.
- \$7,500 credit.

Ans: A, LO: 2, Bloom: C, Difficulty: Medium, Min: 3, AACSB: Analytic, AICPA BB: Legal/Regulatory, AICPA FN: Reporting, AICPA PC: Problem Solving, IMA: Reporting

87. A post-closing trial balance is prepared

- after closing entries have been journalized and posted.
- before closing entries have been journalized and posted.
- after closing entries have been journalized but before the entries are posted.
- before closing entries have been journalized but after the entries are posted.

Ans: A, LO: 3, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory, AICPA FN: Reporting, AICPA PC: Problem Solving, IMA: Reporting

88. All of the following statements about the post-closing trial balance are correct **except** it

- shows that the accounting equation is in balance.
- provides evidence that the journalizing and posting of closing entries have been properly completed.
- contains only permanent accounts.
- proves that all transactions have been recorded.

Ans: D, LO: 3, Bloom: C, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory, AICPA FN: Reporting, AICPA PC: Problem Solving, IMA: Reporting

89. A post-closing trial balance will show

- only permanent account balances.
- only temporary account balances.
- zero balances for all accounts.
- the amount of net income (or loss) for the period.

Ans: A, LO: 3, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory, AICPA FN: Reporting, AICPA PC: Problem Solving, IMA: Reporting

90. A post-closing trial balance should be prepared

- before closing entries are posted to the ledger accounts.
- after closing entries are posted to the ledger accounts.
- before adjusting entries are posted to the ledger accounts.
- only if an error in the accounts is detected.

Ans: B, LO: 3, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory, AICPA FN: Reporting, AICPA PC: Problem Solving, IMA: Reporting

91. A post-closing trial balance will show
- zero balances for all accounts.
  - zero balances for balance sheet accounts.
  - only balance sheet accounts.
  - only income statement accounts.

Ans: C, LO: 3, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory, AICPA FN: Reporting, AICPA PC: Problem Solving, IMA: Reporting

92. The purpose of the post-closing trial balance is to
- prove that no mistakes were made.
  - prove the equality of the balance sheet account balances that are carried forward into the next accounting period.
  - prove the equality of the income statement account balances that are carried forward into the next accounting period.
  - list all the balance sheet accounts in alphabetical order for easy reference.

Ans: B, LO: 3, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory, AICPA FN: Reporting, AICPA PC: Problem Solving, IMA: Reporting

93. The balances that appear on the post-closing trial balance will match the
- income statement account balances after adjustments.
  - balance sheet account balances after closing entries.
  - income statement account balances after closing entries.
  - balance sheet account balances after adjustments.

Ans: B, LO: 3, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory, AICPA FN: Reporting, AICPA PC: Problem Solving, IMA: Reporting

94. Which account listed below would be double ruled in the ledger as part of the closing process?
- Cash
  - Owner's Capital
  - Owner's Drawings
  - Accumulated Depreciation—Equipment

Ans: C, LO: 3, Bloom: C, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory, AICPA FN: Reporting, AICPA PC: Problem Solving, IMA: Reporting

95. A double rule applied to accounts in the ledger during the closing process implies that
- the account is a temporary account.
  - the account is a balance sheet account.
  - the account balance is not zero.
  - a mistake has been made, since double ruling is prescribed.

Ans: A, LO: 3, Bloom: C, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory, AICPA FN: Reporting, AICPA PC: Problem Solving, IMA: Reporting

96. The heading for a post-closing trial balance has a date line that is similar to the one found on
- a balance sheet.
  - an income statement.
  - an owner's equity statement.
  - the worksheet.

Ans: A, LO: 3, Bloom: C, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory, AICPA FN: Reporting, AICPA PC: Problem Solving, IMA: Reporting

## 4 - 22 Test Bank for Accounting Principles, Eleventh Edition

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97. Which one of the following is usually prepared only at the end of a company's annual accounting period?
- Preparing financial statements
  - Journalizing and posting adjusting entries
  - Journalizing and posting closing entries
  - Preparing an adjusted trial balance

Ans: C, LO: 4, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory, AICPA FN: Reporting, AICPA PC: Problem Solving, IMA: Reporting

98. The step in the accounting cycle that is performed on a periodic basis (i.e., monthly, quarterly) is
- analyzing transactions.
  - journalizing and posting adjusting entries.
  - preparing a post-closing trial balance.
  - posting to ledger accounts.

Ans: B, LO: 4, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Industry/Sector Perspective, AICPA FN: Measurement, AICPA PC: Problem Solving, IMA: FSA

99. Which one of the following is an optional step in the accounting cycle of a business enterprise?
- Analyze business transactions
  - Prepare a worksheet
  - Prepare a trial balance
  - Post to the ledger accounts

Ans: B, LO: 4, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Industry/Sector Perspective, AICPA FN: Measurement, AICPA PC: Problem Solving, IMA: FSA

100. The final step in the accounting cycle is to prepare
- closing entries.
  - financial statements.
  - a post-closing trial balance.
  - adjusting entries.

Ans: C, LO: 4, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Industry/Sector Perspective, AICPA FN: Measurement, AICPA PC: Problem Solving, IMA: FSA

101. Which of the following steps in the accounting cycle would **not** generally be performed daily?
- Journalize transactions
  - Post to ledger accounts
  - Prepare adjusting entries
  - Analyze business transactions

Ans: C, LO: 4, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Industry/Sector Perspective, AICPA FN: Measurement, AICPA PC: Problem Solving, IMA: FSA

102. Which of the following steps in the accounting cycle may be performed most frequently?
- Prepare a post-closing trial balance
  - Journalize closing entries
  - Post closing entries
  - Prepare a trial balance

Ans: D, LO: 4, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Industry/Sector Perspective, AICPA FN: Measurement, AICPA PC: Problem Solving, IMA: FSA

103. Which of the following depicts the proper sequence of steps in the accounting cycle?
- Journalize the transactions, analyze business transactions, prepare a trial balance
  - Prepare a trial balance, prepare financial statements, prepare adjusting entries
  - Prepare a trial balance, prepare adjusting entries, prepare financial statements
  - Prepare a trial balance, post to ledger accounts, post adjusting entries

Ans: C, LO: 4, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Industry/Sector Perspective, AICPA FN: Measurement, AICPA PC: Problem Solving, IMA: FSA

104. The two optional steps in the accounting cycle are preparing
- a post-closing trial balance and reversing entries.
  - a worksheet and post-closing trial balances.
  - reversing entries and a worksheet.
  - an adjusted trial balance and a post-closing trial balance.

Ans: C, LO: 4, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Industry/Sector Perspective, AICPA FN: Measurement, AICPA PC: Problem Solving, IMA: FSA

105. The first required step in the accounting cycle is
- reversing entries.
  - journalizing transactions in the book of original entry.
  - analyzing transactions.
  - posting transactions.

Ans: C, LO: 4, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Industry/Sector Perspective, AICPA FN: Measurement, AICPA PC: Problem Solving, IMA: FSA

106. Correcting entries
- always affect at least one balance sheet account and one income statement account.
  - affect income statement accounts only.
  - affect balance sheet accounts only.
  - may involve any combination of accounts in need of correction.

Ans: D, LO: 5, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory, AICPA FN: Reporting, AICPA PC: Problem Solving, IMA: Reporting

107. Merriweather Post Pavillion received a \$820 check from a customer for the balance due. The transaction was erroneously recorded as a debit to Cash \$280 and a credit to Service Revenue \$280. The correcting entry is
- debit Cash, \$820; credit Accounts Receivable, \$820.
  - debit Cash, \$540 and Accounts Receivable, \$280; credit Service Revenue, \$820.
  - debit Cash, \$540 and Service Revenue, \$280; credit Accounts Receivable, \$820.
  - debit Accounts Receivable, \$820; credit Cash, \$560 and Service Revenue, \$280.

Ans: C, LO: 5, Bloom: AN, Difficulty: Medium, Min: 3, AACSB: Analytic, AICPA BB: Legal/Regulatory, AICPA FN: Reporting, AICPA PC: Problem Solving, IMA: Reporting

Solution:  $\$820 - \$280 = \$540$

108. If errors occur in the recording process, they
- should be corrected as adjustments at the end of the period.
  - should be corrected as soon as they are discovered.
  - should be corrected when preparing closing entries.
  - cannot be corrected until the next accounting period.

Ans: B, LO: 5, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory, AICPA FN: Reporting, AICPA PC: Problem Solving, IMA: Reporting

**4 - 24 Test Bank for Accounting Principles, Eleventh Edition**

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109. A correcting entry
- must involve one balance sheet account and one income statement account.
  - is another name for a closing entry.
  - may involve any combination of accounts.
  - is a required step in the accounting cycle.

Ans: C, LO: 5, Bloom: C, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory, AICPA FN: Reporting, AICPA PC: Problem Solving, IMA: Reporting

110. An unacceptable way to make a correcting entry is to
- reverse the incorrect entry.
  - erase the incorrect entry.
  - compare the incorrect entry with the correct entry and make a correcting entry to correct the accounts.
  - correct it immediately upon discovery.

Ans: B, LO: 5, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory, AICPA FN: Reporting, AICPA PC: Problem Solving, IMA: Reporting

111. Zen Arcade paid the weekly payroll on January 2 by debiting Salaries and Wages Expense for \$47,000. The accountant preparing the payroll entry overlooked the fact that Salaries and Wages Expense of \$27,000 had been accrued at year end on December 31. The correcting entry is

a. Salaries and Wages Payable .....	27,000	
Cash.....		27,000
b. Cash .....	20,000	
Salaries and Wages Expense.....		20,000
c. Salaries and Wages Payable .....	27,000	
Salaries and Wages Expense.....		27,000
d. Cash .....	27,000	
Salaries and Wages Expense.....		27,000

Ans: C, LO: 5, Bloom: AN, Difficulty: Medium, Min: 3, AACSB: Analytic, AICPA BB: Legal/Regulatory, AICPA FN: Measurement, AICPA PC: Problem Solving, IMA: FSA

112. Jawbreaker Company paid \$940 on account to a creditor. The transaction was erroneously recorded as a debit to Cash of \$490 and a credit to Accounts Receivable, \$490. The correcting entry is

a. Accounts Payable .....	940	
Cash.....		940
b. Accounts Receivable.....	490	
Cash.....		490
c. Accounts Receivable.....	490	
Accounts Payable.....		490
d. Accounts Receivable.....	490	
Accounts Payable .....	940	
Cash.....		1,430

Ans: D, LO: 5, Bloom: AN, Difficulty: Medium, Min: 3, AACSB: Analytic, AICPA BB: Legal/Regulatory, AICPA FN: Measurement, AICPA PC: Problem Solving, IMA: FSA

Solution: \$940 + \$490 = \$1,430



113. A lawyer collected \$710 of legal fees in advance. He erroneously debited Cash for \$170 and credited Accounts Receivable for \$170. The correcting entry is

a. Cash .....	170	
Accounts Receivable .....	540	
Unearned Service Revenue .....		710
b. Cash .....	710	
Service Revenue .....		710
c. Cash .....	540	
Accounts Receivable .....	170	
Unearned Service Revenue .....		710
d. Cash .....	540	
Accounts Receivable .....		540

Ans: C, LO: 5, Bloom: AN, Difficulty: Medium, Min: 3, AACSB: Analytic, AICPA BB: Legal/Regulatory, AICPA FN: Measurement, AICPA PC: Problem Solving, IMA: FSA

Solution: \$710 – \$170 = \$540

114. On May 25, Yellow House Company received a \$650 check from Grizzly Bean for services to be performed in the future. The bookkeeper for Yellow House Company incorrectly debited Cash for \$650 and credited Accounts Receivable for \$650. The amounts have been posted to the ledger. To correct this entry, the bookkeeper should:

- a. debit Cash \$650 and credit Unearned Service Revenue \$650.
- b. debit Accounts Receivable \$650 and credit Service Revenue \$650.
- c. debit Accounts Receivable \$650 and credit Cash \$650.
- d. debit Accounts Receivable \$650 and credit Unearned Service Revenue \$650.

Ans: D, LO: 5, Bloom: AN, Difficulty: Medium, Min: 3, AACSB: Analytic, AICPA BB: Legal/Regulatory, AICPA FN: Measurement, AICPA PC: Problem Solving, IMA: FSA

115. On March 8, Black Candy Company bought supplies on account from the Arcade Fire Company for \$550. Black Candy Company incorrectly debited Equipment for \$500 and credited Accounts Payable for \$500. The entries have been posted to the ledger. the correcting entry should be:

a. Supplies .....	550	
Accounts Payable .....		550
b. Supplies .....	550	
Accounts Payable .....		500
Equipment .....		50
c. Supplies .....	550	
Equipment .....		550
d. Supplies .....	550	
Equipment .....		500
Accounts Payable .....		50

Ans: D, LO: 5, Bloom: AN, Difficulty: Medium, Min: 3, AACSB: Analytic, AICPA BB: Legal/Regulatory, AICPA FN: Measurement, AICPA PC: Problem Solving, IMA: FSA

Solution: \$550 – \$500 = \$50

**4 - 26 Test Bank for Accounting Principles, Eleventh Edition**

116. The following information is for Sunny Day Real Estate:

Sunny Day Real Estate  
Balance Sheet  
December 31, 2014

Cash	\$ 25,000	Accounts Payable	\$ 60,000
Prepaid Insurance	30,000	Salaries and Wages Payable	15,000
Accounts Receivable	50,000	Mortgage Payable	<u>85,000</u>
Inventory	70,000	Total Liabilities	160,000
Land Held for Investment	85,000		
Land	120,000		
Building	\$100,000		
Less Accumulated		Owner's Capital	<u>370,000</u>
Depreciation	<u>(20,000)</u>		
	80,000		
Trademark	<u>70,000</u>	Total Liabilities and	
Total Assets	<u>\$530,000</u>	Owner's Equity	<u>\$530,000</u>

The total dollar amount of assets to be classified as current assets is

- a. \$105,000.
- b. \$175,000.
- c. \$190,000.
- d. \$260,000.

Ans: B, LO: 6, Bloom: AN, Difficulty: Medium, Min: 3, AACSB: Analytic, AICPA BB: Legal/Regulatory, AICPA FN: Reporting, AICPA PC: Problem Solving, IMA: Reporting

Solution: \$25,000 + \$30,000 + \$50,000 + \$70,000 = \$175,000

117. The following information is for Sunny Day Real Estate:

Sunny Day Real Estate  
Balance Sheet  
December 31, 2014

Cash	\$ 25,000	Accounts Payable	\$ 60,000
Prepaid Insurance	30,000	Salaries and Wages Payable	15,000
Accounts Receivable	50,000	Mortgage Payable	<u>85,000</u>
Inventory	70,000	Total Liabilities	160,000
Land Held for Investment	85,000		
Land	120,000		
Building	\$100,000		
Less Accumulated		Owner's Capital	<u>370,000</u>
Depreciation	<u>(20,000)</u>		
	80,000		
Trademark	<u>70,000</u>	Total Liabilities and	
Total Assets	<u>\$530,000</u>	Owner's Equity	<u>\$530,000</u>

The total dollar amount of assets to be classified as property, plant, and equipment is

- a. \$200,000.
- b. \$220,000.
- c. \$285,000.
- d. \$305,000.

Ans: A, LO: 6, Bloom: AN, Difficulty: Medium, Min: 3, AACSB: Analytic, AICPA BB: Legal/Regulatory, AICPA FN: Reporting, AICPA PC: Problem Solving, IMA: Reporting

Solution: \$120,000 + \$80,000 = \$200,000

118. The following information is for Sunny Day Real Estate:

Sunny Day Real Estate			
Balance Sheet			
December 31, 2014			
Cash	\$	25,000	Accounts Payable
Prepaid Insurance		30,000	Salaries and Wages Payable
Accounts Receivable		50,000	Mortgage Payable
Inventory		70,000	<u>85,000</u>
Land Held for Investment		85,000	Total Liabilities
Land		120,000	160,000
Building	\$100,000		
Less Accumulated			Owner's Capital
Depreciation	(20,000)	80,000	<u>370,000</u>
Trademark		<u>70,000</u>	
Total Assets		<u>\$530,000</u>	Total Liabilities and
			Owner's Equity
			<u>\$530,000</u>

The total dollar amount of assets to be classified as investments is

- a. \$0.
- b. \$70,000.
- c. \$85,000.
- d. \$155,000.

Ans: C, LO: 6, Bloom: AN, Difficulty: Medium, Min: 3, AACSB: Analytic, AICPA BB: Legal/Regulatory, AICPA FN: Reporting, AICPA PC: Problem Solving, IMA: Reporting

119. The following information is for Sunny Day Real Estate:

Sunny Day Real Estate			
Balance Sheet			
December 31, 2014			
Cash	\$	25,000	Accounts Payable
Prepaid Insurance		30,000	Salaries and Wages Payable
Accounts Receivable		50,000	Mortgage Payable
Inventory		70,000	<u>85,000</u>
Land Held for Investment		85,000	Total Liabilities
Land		120,000	160,000
Building	\$100,000		
Less Accumulated			Owner's Capital
Depreciation	(20,000)	80,000	<u>370,000</u>
Trademark		<u>70,000</u>	
Total Assets		<u>\$530,000</u>	Total Liabilities and
			Owner's Equity
			<u>\$530,000</u>

The total dollar amount of liabilities to be classified as current liabilities is

- a. \$15,000.
- b. \$60,000.
- c. \$75,000.
- d. \$160,000.

Ans: C, LO: 6, Bloom: AN, Difficulty: Medium, Min: 3, AACSB: Analytic, AICPA BB: Legal/Regulatory, AICPA FN: Reporting, AICPA PC: Problem Solving, IMA: Reporting

Solution: \$60,000 + \$15,000 = \$75,000

**4 - 28 Test Bank for Accounting Principles, Eleventh Edition**

120. The following information is for Bright Eyes Auto Supplies:

Bright Eyes Auto Supplies  
Balance Sheet  
December 31, 2014

Cash	\$ 40,000	Accounts Payable	\$	130,000
Prepaid Insurance	80,000	Salaries and Wages Payable		50,000
Accounts Receivable	100,000	Mortgage Payable		<u>150,000</u>
Inventory	140,000	Total Liabilities		330,000
Land Held for Investment	180,000			
Land	250,000			
Building	\$200,000			
Less Accumulated		Owner's Capital		<u>740,000</u>
Depreciation	<u>(60,000)</u>			
Trademark	<u>140,000</u>	Total Liabilities and		
Total Assets	<u>\$1,070,000</u>	Owner's Equity		<u>\$1,070,000</u>

The total dollar amount of assets to be classified as current assets is

- a. \$140,000.
- b. \$220,000.
- c. \$360,000.
- d. \$500,000.

Ans: C, LO: 6, Bloom: AN, Difficulty: Medium, Min: 3, AACSB: Analytic, AICPA BB: Legal/Regulatory, AICPA FN: Reporting, AICPA PC: Problem Solving, IMA: Reporting

Solution: \$40,000 + \$80,000 + \$100,000 + \$140,000 = \$360,000

121. The following information is for Bright Eyes Auto Supplies:

Bright Eyes Auto Supplies  
Balance Sheet  
December 31, 2014

Cash	\$ 40,000	Accounts Payable	\$	130,000
Prepaid Insurance	80,000	Salaries and Wages Payable		50,000
Accounts Receivable	100,000	Mortgage Payable		<u>150,000</u>
Inventory	140,000	Total Liabilities		330,000
Land Held for Investment	180,000			
Land	250,000			
Building	\$200,000			
Less Accumulated		Owner's Capital		<u>740,000</u>
Depreciation	<u>(60,000)</u>			
Trademark	<u>140,000</u>	Total Liabilities and		
Total Assets	<u>\$1,070,000</u>	Owner's Equity		<u>\$1,070,000</u>

The total dollar amount of assets to be classified as property, plant, and equipment is

- a. \$390,000.
- b. \$450,000.
- c. \$570,000.
- d. \$630,000.

Ans: A, LO: 6, Bloom: AN, Difficulty: Medium, Min: 3, AACSB: Analytic, AICPA BB: Legal/Regulatory, AICPA FN: Reporting, AICPA PC: Problem Solving, IMA: Reporting

Solution: \$250,000 + \$140,000 = \$390,000

122. The following information is for Bright Eyes Auto Supplies:

Bright Eyes Auto Supplies  
Balance Sheet  
December 31, 2014

Cash	\$ 40,000	Accounts Payable	\$ 130,000
Prepaid Insurance	80,000	Salaries and Wages Payable	50,000
Accounts Receivable	100,000	Mortgage Payable	<u>150,000</u>
Inventory	140,000	Total Liabilities	330,000
Land Held for Investment	180,000		
Land	250,000		
Building	\$200,000		
Less Accumulated		Owner's Capital	<u>740,000</u>
Depreciation	(60,000) 140,000		
Trademark	<u>140,000</u>	Total Liabilities and	
Total Assets	<u>\$1,070,000</u>	Owner's Equity	<u>\$1,070,000</u>

The total dollar amount of assets to be classified as investments is

- a. \$0.
- b. \$140,000.
- c. \$180,000.
- d. \$250,000.

Ans: C, LO: 6, Bloom: AN, Difficulty: Medium, Min: 3, AACSB: Analytic, AICPA BB: Legal/Regulatory, AICPA FN: Reporting, AICPA PC: Problem Solving, IMA: Reporting

123. The following information is for Bright Eyes Auto Supplies:

Bright Eyes Auto Supplies  
Balance Sheet  
December 31, 2014

Cash	\$ 40,000	Accounts Payable	\$ 130,000
Prepaid Insurance	80,000	Salaries and Wages Payable	50,000
Accounts Receivable	100,000	Mortgage Payable	<u>150,000</u>
Inventory	140,000	Total Liabilities	330,000
Land Held for Investment	180,000		
Land	250,000		
Building	\$200,000		
Less Accumulated		Owner's Capital	<u>740,000</u>
Depreciation	(60,000) 140,000		
Trademark	<u>140,000</u>	Total Liabilities and	
Total Assets	<u>\$1,070,000</u>	Owner's Equity	<u>\$1,070,000</u>

The total dollar amount of liabilities to be classified as current liabilities is

- a. \$50,000.
- b. \$130,000.
- c. \$180,000.
- d. \$330,000.

Ans: C, LO: 6, Bloom: AN, Difficulty: Medium, Min: 3, AACSB: Analytic, AICPA BB: Legal/Regulatory, AICPA FN: Reporting, AICPA PC: Problem Solving, IMA: Reporting

Solution: \$130,000 + \$50,000 = \$180,000

#### 4 - 30 Test Bank for Accounting Principles, Eleventh Edition

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124. All of the following are property, plant, and equipment **except**
- supplies.
  - machinery.
  - land.
  - buildings.

Ans: A, LO: 6, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory, AICPA FN: Reporting, AICPA PC: Problem Solving, IMA: Reporting

125. The first item listed under current liabilities is usually
- accounts payable.
  - notes payable.
  - salaries and wages payable.
  - taxes payable.

Ans: B, LO: 6, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory, AICPA FN: Reporting, AICPA PC: Problem Solving, IMA: Reporting

126. Equipment is classified in the balance sheet as
- a current asset.
  - property, plant, and equipment.
  - an intangible asset.
  - a long-term investment.

Ans: B, LO: 6, Bloom: C, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory, AICPA FN: Reporting, AICPA PC: Problem Solving, IMA: Reporting

127. A current asset is
- the last asset purchased by a business.
  - an asset which is currently being used to produce a product or service.
  - usually found as a separate classification in the income statement.
  - an asset that a company expects to convert to cash or use up within one year.

Ans: D, LO: 6, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory, AICPA FN: Reporting, AICPA PC: Problem Solving, IMA: Reporting

128. An intangible asset
- does not have physical substance, yet often is very valuable.
  - is worthless because it has no physical substance.
  - is converted into a tangible asset during the operating cycle.
  - cannot be classified on the balance sheet because it lacks physical substance.

Ans: A, LO: 6, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory, AICPA FN: Reporting, AICPA PC: Problem Solving, IMA: Reporting

129. Liabilities are generally classified on a balance sheet as
- small liabilities and large liabilities.
  - present liabilities and future liabilities.
  - tangible liabilities and intangible liabilities.
  - current liabilities and long-term liabilities.

Ans: D, LO: 6, Bloom: C, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory, AICPA FN: Reporting, AICPA PC: Problem Solving, IMA: Reporting

130. Which of the following would **not** be classified a long-term liability?
- Current maturities of long-term debt
  - Bonds payable
  - Mortgage payable
  - Lease liabilities

Ans: A, LO: 6, Bloom: C, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory, AICPA FN: Reporting, AICPA PC: Problem Solving, IMA: Reporting

131. Which of the following liabilities are **not** related to the operating cycle?
- Salaries and wages payable
  - Accounts payable
  - Utilities payable
  - Bonds payable

Ans: D, LO: 6, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory, AICPA FN: Reporting, AICPA PC: Problem Solving, IMA: Reporting

132. Intangible assets include each of the following **except**
- copyrights.
  - goodwill.
  - land improvements.
  - patents.

Ans: C, LO: 6, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory, AICPA FN: Reporting, AICPA PC: Problem Solving, IMA: Reporting

133. It is **not** true that current assets are assets that a company expects to
- realize in cash within one year.
  - sell within one year.
  - use up within one year.
  - acquire within one year.

Ans: D, LO: 6, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory, AICPA FN: Reporting, AICPA PC: Problem Solving, IMA: Reporting

134. The operating cycle of a company is the average time that is required to go from cash to
- sales in producing revenues.
  - cash in producing revenues.
  - inventory in producing revenues.
  - accounts receivable in producing revenues.

Ans: B, LO: 6, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory, AICPA FN: Reporting, AICPA PC: Problem Solving, IMA: Reporting

135. On a classified balance sheet, current assets are customarily listed
- in alphabetical order.
  - with the largest dollar amounts first.
  - in the order of liquidity.
  - in the order of acquisition.

Ans: C, LO: 6, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory, AICPA FN: Reporting, AICPA PC: Problem Solving, IMA: Reporting

136. Intangible assets are
- listed under current assets on the balance sheet.
  - not listed on the balance sheet because they do not have physical substance.
  - long-lived assets that are often very valuable.
  - listed as a long-term investment on the balance sheet.

Ans: C, LO: 6, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory, AICPA FN: Reporting, AICPA PC: Problem Solving, IMA: Reporting

137. The relationship between current assets and current liabilities is important in evaluating a company's
- profitability.
  - liquidity.
  - market value.
  - accounting cycle.

Ans: B, LO: 6, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Industry/Sector Perspective, AICPA FN: Risk Analysis, AICPA PC: Problem Solving, IMA: Business Economics

#### 4 - 32 Test Bank for Accounting Principles, Eleventh Edition

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138. The most important information needed to determine if companies can pay their current obligations is the
- net income for this year.
  - projected net income for next year.
  - relationship between current assets and current liabilities.
  - relationship between short-term and long-term liabilities.

Ans: C, LO: 6, Bloom: C, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Industry/Sector Perspective, AICPA FN: Risk Analysis, AICPA PC: Problem Solving, IMA: Business Economics

139. The following items are taken from the financial statements of the Postal Service for the year ending December 31, 2014:

Accounts payable	\$ 18,000
Accounts receivable	11,000
Accumulated depreciation – equipment	28,000
Advertising expense	21,000
Cash	15,000
Owner’s capital (1/1/14)	102,000
Owner’s drawings	14,000
Depreciation expense	12,000
Insurance expense	3,000
Note payable, due 6/30/15	70,000
Prepaid insurance (12-month policy)	6,000
Rent expense	17,000
Salaries and wages expense	32,000
Service revenue	133,000
Supplies	4,000
Supplies expense	6,000
Equipment	210,000

What is the company’s net income for the year ending December 31, 2014?

- \$12,000
- \$28,000
- \$42,000
- \$133,000

Ans: C, LO: 1, Bloom: AN, Difficulty: Medium, Min: 3, AACSB: Analytic, AICPA BB: Legal/Regulatory, AICPA FN: Reporting, AICPA PC: Problem Solving, IMA: Reporting

Solution:  $\$133,000 - \$21,000 - \$12,000 - \$3,000 - \$17,000 - \$32,000 - \$6,000 = \$42,000$

140. The following items are taken from the financial statements of the Postal Service for the year ending December 31, 2014:

Accounts payable	\$ 18,000
Accounts receivable	11,000
Accumulated depreciation – equipment	28,000
Advertising expense	21,000
Cash	15,000
Owner’s capital (1/1/14)	102,000
Owner’s drawings	14,000
Depreciation expense	12,000
Insurance expense	3,000
Note payable, due 6/30/15	70,000
Prepaid insurance (12-month policy)	6,000



**Multiple Choice 140.** (Cont.)

Rent expense	17,000
Salaries and wages expense	32,000
Service revenue	133,000
Supplies	4,000
Supplies expense	6,000
Equipment	210,000

What is the balance that would be reported for owner's equity at December 31, 2014?

- a. \$158,000
- b. \$144,000
- c. \$130,000
- d. \$102,000

Ans: C, LO: 6, Bloom: AN, Difficulty: Medium, Min: 3, AACSB: Analytic, AICPA BB: Legal/Regulatory, AICPA FN: Reporting, AICPA PC: Problem Solving, IMA: Reporting

Solution:  $\$133,000 - \$21,000 - \$12,000 - \$3,000 - \$17,000 - \$32,000 - \$6,000 = \$42,000$ ;  $\$102,000 + \$42,000 - \$14,000 = \$130,000$

141. The following items are taken from the financial statements of the Postal Service for the year ending December 31, 2014:

Accounts payable	\$ 18,000
Accounts receivable	11,000
Accumulated depreciation – equipment	28,000
Advertising expense	21,000
Cash	15,000
Owner's capital (1/1/14)	102,000
Owner's drawings	14,000
Depreciation expense	12,000
Insurance expense	3,000
Note payable, due 6/30/15	70,000
Prepaid insurance (12-month policy)	6,000
Rent expense	17,000
Salaries and wages expense	32,000
Service revenue	133,000
Supplies	4,000
Supplies expense	6,000
Equipment	210,000

What are total current assets at December 31, 2014?

- a. \$26,000
- b. \$32,000
- c. \$36,000
- d. \$42,000

Ans: C, LO: 6, Bloom: AN, Difficulty: Medium, Min: 3, AACSB: Analytic, AICPA BB: Legal/Regulatory, AICPA FN: Reporting, AICPA PC: Problem Solving, IMA: Reporting

Solution:  $\$11,000 + \$15,000 + \$6,000 + \$4,000 = \$36,000$

#### 4 - 34 Test Bank for Accounting Principles, Eleventh Edition

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142. The following items are taken from the financial statements of the Postal Service for the year ending December 31, 2014:

Accounts payable	\$ 18,000
Accounts receivable	11,000
Accumulated depreciation – equipment	28,000
Advertising expense	21,000
Cash	15,000
Owner's capital (1/1/14)	102,000
Owner's drawings	14,000
Depreciation expense	12,000
Equipment	210,000
Insurance expense	3,000
Note payable, due 6/30/15	70,000
Prepaid insurance (12-month policy)	6,000
Rent expense	17,000
Salaries and wages expense	32,000
Service revenue	133,000
Supplies	4,000
Supplies expense	6,000

What is the book value of the equipment at December 31, 2014?

- a. \$170,000
- b. \$182,000
- c. \$210,000
- d. \$238,000

Ans: B, LO: 6, Bloom: AN, Difficulty: Medium, Min: 3, AACSB: Analytic, AICPA BB: Legal/Regulatory, AICPA FN: Reporting, AICPA PC: Problem Solving, IMA: Reporting

Solution:  $\$210,000 - \$28,000 = \$182,000$

143. The following items are taken from the financial statements of the Postal Service for the year ending December 31, 2014:

Accounts payable	\$ 18,000
Accounts receivable	11,000
Accumulated depreciation – equipment	28,000
Advertising expense	21,000
Cash	15,000
Owner's capital (1/1/14)	102,000
Owner's drawings	14,000
Depreciation expense	12,000
Insurance expense	3,000
Note payable, due 6/30/15	70,000
Prepaid insurance (12-month policy)	6,000
Rent expense	17,000
Salaries and wages expense	32,000
Service revenue	133,000
Supplies	4,000
Supplies expense	6,000
Equipment	210,000

**Multiple Choice 143. (Cont.)**

What are total current liabilities at December 31, 2014?

- a. \$18,000
- b. \$70,000
- c. \$88,000
- d. \$120,000

Ans: C, LO: 6, Bloom: AN, Difficulty: Medium, Min: 3, AACSB: Analytic, AICPA BB: Legal/Regulatory, AICPA FN: Reporting, AICPA PC: Problem Solving, IMA: Reporting

Solution: \$18,000 + \$70,000 = \$88,000

144. The following items are taken from the financial statements of the Postal Service for the year ending December 31, 2014:

Accounts payable	\$ 18,000
Accounts receivable	11,000
Accumulated depreciation – equipment	28,000
Advertising expense	21,000
Cash	15,000
Owner’s capital (1/1/14)	102,000
Owner’s drawings	14,000
Depreciation expense	12,000
Insurance expense	3,000
Note payable, due 6/30/15	70,000
Prepaid insurance (12-month policy)	6,000
Rent expense	17,000
Salaries and wages expense	32,000
Service revenue	133,000
Supplies	4,000
Supplies expense	6,000
Equipment	210,000

What are total long-term liabilities at December 31, 2014?

- a. \$0
- b. \$70,000
- c. \$88,000
- d. \$90,000

Ans: A, LO: 6, Bloom: AN, Difficulty: Medium, Min: 3, AACSB: Analytic, AICPA BB: Legal/Regulatory, AICPA FN: Reporting, AICPA PC: Problem Solving, IMA: Reporting

**4 - 36 Test Bank for Accounting Principles, Eleventh Edition**

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145. The following items are taken from the financial statements of the Postal Service for the year ending December 31, 2014:

Accounts payable	\$ 18,000
Accounts receivable	11,000
Accumulated depreciation – equipment	28,000
Advertising expense	21,000
Cash	15,000
Owner’s capital (1/1/14)	102,000
Owner’s drawings	14,000
Depreciation expense	12,000
Equipment	210,000
Insurance expense	3,000
Note payable, due 6/30/15	70,000
Prepaid insurance (12-month policy)	6,000
Rent expense	17,000
Salaries and wages expense	32,000
Service revenue	133,000
Supplies	4,000
Supplies expense	6,000

What is total liabilities and owner’s equity at December 31, 2014?

- a. \$176,000
- b. \$218,000
- c. \$190,000
- d. \$232,000

Ans: B, LO: 6, Bloom: AN, Difficulty: Medium, Min: 3, AACSB: Analytic, AICPA BB: Legal/Regulatory, AICPA FN: Reporting, AICPA PC: Problem Solving, IMA: Reporting

Solution:  $\$133,000 - \$21,000 - \$12,000 - \$3,000 - \$17,000 - \$32,000 - \$6,000 = \$42,000$ ;  $\$18,000 + \$70,000 = \$88,000$ ;  $\$88,000 + (\$102,000 + \$42,000 - \$14,000) = \$218,000$

146. The following items are taken from the financial statements of the Postal Service for the year ending December 31, 2014:

Accounts payable	\$ 18,000
Accounts receivable	11,000
Accumulated depreciation – equipment	28,000
Advertising expense	21,000
Cash	15,000
Owner’s capital (1/1/14)	102,000
Owner’s drawings	14,000
Depreciation expense	12,000
Equipment	210,000
Insurance expense	3,000
Note payable, due 6/30/15	70,000
Prepaid insurance (12-month policy)	6,000
Rent expense	17,000
Salaries and wages expense	32,000
Service revenue	133,000
Supplies	4,000
Supplies expense	6,000

**Multiple Choice 146.** (Cont.)

The sub-classifications for assets on the company's classified balance sheet would include all of the following **except**

- a. Current Assets.
- b. Property, Plant, and Equipment.
- c. Intangible Assets.
- d. Long-term Assets.

Ans: D, LO: 6, Bloom: K, Difficulty: Medium, Min: 3, AACSB: Analytic, AICPA BB: Legal/Regulatory, AICPA FN: Reporting, AICPA PC: Problem Solving, IMA: Reporting

147. The following items are taken from the financial statements of the Postal Service for the year ending December 31, 2014:

Accounts payable	\$ 18,000
Accounts receivable	11,000
Accumulated depreciation – equipment	28,000
Advertising expense	21,000
Cash	15,000
Owner's capital (1/1/14)	102,000
Owner's drawings	14,000
Depreciation expense	12,000
Insurance expense	3,000
Note payable, due 6/30/15	70,000
Prepaid insurance (12-month policy)	6,000
Rent expense	17,000
Salaries and wages expense	32,000
Service revenue	133,000
Supplies	4,000
Supplies expense	6,000
Equipment	210,000

The current assets should be listed on Postal Service's balance sheet in the following order:

- a. cash, accounts receivable, prepaid insurance, equipment.
- b. cash, prepaid insurance, supplies, accounts receivable.
- c. cash, accounts receivable, prepaid insurance, supplies.
- d. equipment, supplies, prepaid insurance, accounts receivable, cash.

Ans: C, LO: 6, Bloom: K, Difficulty: Medium, Min: 3, AACSB: Analytic, AICPA BB: Legal/Regulatory, AICPA FN: Reporting, AICPA PC: Problem Solving, IMA: Reporting

148. Which statement about long-term investments is **not** true?

- a. They will be held for more than one year.
- b. They are not currently used in the operation of the business.
- c. They include investments in stock of other companies and land held for future use.
- d. They can never include cash accounts.

Ans: D, LO: 6, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory, AICPA FN: Measurement, AICPA PC: Problem Solving, IMA: FSA

#### 4 - 38 Test Bank for Accounting Principles, Eleventh Edition

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149. What is the order in which assets are generally listed on a classified balance sheet?
- Current and long-term
  - Current; property, plant, and equipment; long-term investments; intangible assets
  - Current; property, plant, and equipment; intangible assets; long-term investments
  - Current; long-term investments; property, plant, and equipment; intangible assets

Ans: D, LO: 6, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory, AICPA FN: Reporting, AICPA PC: Problem Solving, IMA: Reporting

150. These are selected account balances on December 31, 2014.

Land (location of the corporation's office building)	\$100,000
Land (held for future use)	150,000
Corporate Office Building	700,000
Inventory	200,000
Equipment	450,000
Office Furniture	150,000
Accumulated Depreciation	425,000

What is the total amount of property, plant, and equipment that will appear on the balance sheet?

- \$975,000
- \$1,125,000
- \$1,175,000
- \$1,400,000

Ans: A, LO: 6, Bloom: AP, Difficulty: Medium, Min: 3, AACSB: Analytic, AICPA BB: Legal/Regulatory, AICPA FN: Reporting, AICPA PC: Problem Solving, IMA: Reporting

Solution:  $\$100,000 + \$700,000 + \$450,000 + \$150,000 - \$425,000 = \$975,000$

151. The following selected account balances appear on the December 31, 2014 balance sheet of Superchunk Co.

Land (location of the corporation's office building)	\$150,000
Land (held for future use)	225,000
Corporate Office Building	800,000
Inventory	300,000
Equipment	675,000
Office Furniture	225,000
Accumulated Depreciation	640,000

What is the total amount of property, plant, and equipment that will be reported on the balance sheet?

- \$1,210,000
- \$1,435,000
- \$1,510,000
- \$1,850,000

Ans: A, LO: 6, Bloom: AP, Difficulty: Medium, Min: 3, AACSB: Analytic, AICPA BB: Legal/Regulatory, AICPA FN: Reporting, AICPA PC: Problem Solving, IMA: Reporting

Solution:  $\$150,000 + \$800,000 + \$675,000 + \$225,000 - \$640,000 = \$1,210,000$

- <sup>a</sup>152. A reversing entry
- reverses entries that were made in error.
  - is the exact opposite of an adjusting entry made in a previous period.
  - is made when a business disposes of an asset it previously purchased.
  - is made when a company sustains a loss in one period and reverses the effect with a profit in the next period.

Ans: B, LO: 7, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Industry/Sector Perspective, AICPA FN: Measurement, AICPA PC: Problem Solving, IMA: FSA

- <sup>a</sup>153. If a company utilizes reversing entries, they will
- be made at the beginning of the next accounting period.
  - not actually be posted to the general ledger accounts.
  - be made before the post-closing trial balance.
  - be part of the adjusting entry process.

Ans: A, LO: 7, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Industry/Sector Perspective, AICPA FN: Measurement, AICPA PC: Problem Solving, IMA: FSA

154. The steps in the preparation of a worksheet do **not** include
- analyzing documentary evidence.
  - preparing a trial balance on the worksheet.
  - entering the adjustments in the adjustment columns.
  - entering adjusted balances in the adjusted trial balance columns.

Ans: A, LO: 1, Bloom: C, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Industry/Sector Perspective, AICPA FN: Measurement, AICPA PC: Problem Solving, IMA: FSA

155. Balance sheet accounts are considered to be
- temporary owner's equity accounts.
  - permanent accounts.
  - capital accounts.
  - nominal accounts.

Ans: B, LO: 2, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory, AICPA FN: Reporting, AICPA PC: Problem Solving, IMA: Reporting

156. Income Summary has a credit balance of \$17,000 in S. Sufjan Co. after closing revenues and expenses. The entry to close Income Summary is
- credit Income Summary \$17,000, debit Owner's Capital \$17,000.
  - credit Income Summary \$17,000, debit Owner's Drawings \$17,000.
  - debit Income Summary \$17,000, credit Owner's Drawings \$17,000.
  - debit Income Summary \$17,000, credit Owner's Capital \$17,000.

Ans: D, LO: 2, Bloom: K, Difficulty: Medium, Min: 3, AACSB: Analytic, AICPA BB: Legal/Regulatory, AICPA FN: Reporting, AICPA PC: Problem Solving, IMA: Reporting

157. The post-closing trial balance contains only
- income statement accounts.
  - balance sheet accounts.
  - balance sheet and income statement accounts.
  - income statement, balance sheet, and owner's equity statement accounts.

Ans: B, LO: 3, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory, AICPA FN: Reporting, AICPA PC: Problem Solving, IMA: Reporting

#### 4 - 40 Test Bank for Accounting Principles, Eleventh Edition

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158. Which of the following is an optional step in the accounting cycle?
- Adjusting entries
  - Closing entries
  - Correcting entries
  - Reversing entries

Ans: D, LO: 4, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Industry/Sector Perspective, AICPA FN: Measurement, AICPA PC: Problem Solving, IMA: FSA

159. Which one of the following statements concerning the accounting cycle is **incorrect**?
- The accounting cycle includes journalizing transactions and posting to ledger accounts.
  - The accounting cycle includes only one optional step.
  - The steps in the accounting cycle are performed in sequence.
  - The steps in the accounting cycle are repeated in each accounting period.

Ans: B, LO: 4, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Industry/Sector Perspective, AICPA FN: Measurement, AICPA PC: Problem Solving, IMA: FSA

160. Correcting entries are made
- at the beginning of an accounting period.
  - at the end of an accounting period.
  - whenever an error is discovered.
  - after closing entries.

Ans: C, LO: 5, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory, AICPA FN: Reporting, AICPA PC: Problem Solving, IMA: Reporting

161. On September 23, Sebadoh Company received a \$350 check from Surfer Rosa Inc. for services to be performed in the future. The bookkeeper for Sebadoh Company incorrectly debited Cash for \$350 and credited Accounts Receivable for \$350. The amounts have been posted to the ledger. To correct this entry, the bookkeeper should
- debit Cash \$350 and credit Unearned Service Revenue \$350.
  - debit Accounts Receivable \$350 and credit Unearned Service Revenue \$350.
  - debit Accounts Receivable \$350 and credit Cash \$350.
  - debit Accounts Receivable \$350 and credit Service Revenue \$350.

Ans: B, LO: 5, Bloom: AN, Difficulty: Medium, Min: 3, AACSB: Analytic, AICPA BB: Legal/Regulatory, AICPA FN: Reporting, AICPA PC: Problem Solving, IMA: Reporting

162. All of the following are owner's equity accounts **except**
- the Capital account.
  - Capital Stock.
  - Investment in Stock.
  - Retained Earnings.

Ans: C, LO: 6, Bloom: K, Difficulty: Easy, Min: 1, AACSB: Analytic, AICPA BB: Legal/Regulatory, AICPA FN: Reporting, AICPA PC: Problem Solving, IMA: Reporting

163. Current liabilities
- are obligations that the company is to pay within the forthcoming year.
  - are listed in the balance sheet in order of their expected maturity.
  - are listed in the balance sheet, starting with accounts payable.
  - should not include long-term debt that is expected to be paid within the next year.

Ans: A, LO: 6, Bloom: K, Difficulty: Easy, Min: 1, AACSB: Analytic, AICPA BB: Legal/Regulatory, AICPA FN: Reporting, AICPA PC: Problem Solving, IMA: Reporting



- <sup>a</sup>164. The use of reversing entries
- is a required step in the accounting cycle.
  - changes the amounts reported in the financial statements.
  - simplifies the recording of subsequent transactions.
  - is required for all adjusting entries.

Ans: C, LO: 7, Bloom: K, Difficulty: Easy, Min: 1, AACSB: Analytic, AICPA BB: Legal/Regulatory, AICPA FN: Reporting, AICPA PC: Problem Solving, IMA: Reporting

165. The classified balance sheet is
- required under GAAP but not under IFRS.
  - required under IFRS in the same format as under GAAP.
  - required under IFRS but not under GAAP.
  - required under IFRS with certain variations in format as compared to GAAP.

IFRS. Ans: D, LO: 8, Bloom: K, Difficulty: Easy, Min: 1, AACSB: Analytic, AICPA BB: Legal/Regulatory, AICPA FN: Reporting, AICPA PC: Problem Solving, IMA: Reporting

166. IFRS requires the use of
- the term balance sheet.
  - the term statement of financial position.
  - neither balance sheet nor statement of financial position, but recommends use of the term balance sheet.
  - neither balance sheet nor statement of financial position, but recommends use of the term statement of financial position.

IFRS. Ans: D, LO: 8, Bloom: K, Difficulty: Easy, Min: 1, AACSB: Analytic, AICPA BB: Legal/Regulatory, AICPA FN: Reporting, AICPA PC: Problem Solving, IMA: Reporting

167. IFRS
- requires a specific format for the balance sheet (statement of financial position) that is identical to U.S. GAAP.
  - requires a specific format for the balance sheet (statement of financial position) that is different from U.S. GAAP.
  - requires no specific format for the balance sheet (statement of financial position) but most companies that follow IFRS prepare the statement identical to U.S. GAAP.
  - requires no specific format for the balance sheet (statement of financial position) but most companies that follow IFRS prepare the statement in a different format from U.S. GAAP.

IFRS. Ans: D, LO: 8, Bloom: K, Difficulty: Easy, Min: 1, AACSB: Analytic, AICPA BB: Legal/Regulatory, AICPA FN: Reporting, AICPA PC: Problem Solving, IMA: Reporting

168. Most companies that follow IFRS present balance sheet (statement of financial position) information in this order:
- current assets; investments; property, plant and equipment; intangible assets; current liabilities; long term liabilities; owners' equity.
  - intangible assets; property, plant and equipment; investments; current assets; current liabilities; owners' equity; long term liabilities.
  - current assets; noncurrent assets; current liabilities; noncurrent liabilities; equity.
  - noncurrent assets; current assets; equity; noncurrent liabilities; current liabilities.

IFRS. Ans: D, LO: 8, Bloom: K, Difficulty: Easy, Min: 1, AACSB: Analytic, AICPA BB: Legal/Regulatory, AICPA FN: Reporting, AICPA PC: Problem Solving, IMA: Reporting

#### 4 - 42 Test Bank for Accounting Principles, Eleventh Edition

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169. Under IFRS and under GAAP, current assets are listed in
- | <u>IFRS</u>                   | <u>GAAP</u>                |
|-------------------------------|----------------------------|
| a. order of liquidity         | order of liquidity         |
| b. reverse order of liquidity | order of liquidity.        |
| c. order of liquidity         | reverse order of liquidity |
| d. reverse order of liquidity | reverse order of liquidity |

IFRS. Ans: B, LO: 8, Bloom: K, Difficulty: Easy, Min: 1, AACSB: Analytic, AICPA BB: Legal/Regulatory, AICPA FN: Reporting, AICPA PC: Problem Solving, IMA: Reporting

170. The subtotal net assets is used in
- both GAAP and IFRS.
  - GAAP but not IFRS.
  - IFRS but not GAAP.
  - neither IFRS nor GAAP.

IFRS. Ans: C, LO: 8, Bloom: K, Difficulty: Easy, Min: 1, AACSB: Analytic, AICPA BB: Legal/Regulatory, AICPA FN: Reporting, AICPA PC: Problem Solving, IMA: Reporting

171. Both IFRS and GAAP require disclosure about
- accounting policies followed.
  - judgements that management has made in the process of applying the entity's accounting policies.
  - the key assumptions and estimation uncertainty.
  - All of these answer choices are correct.

IFRS. Ans: D, LO: 8, Bloom: K, Difficulty: Easy, Min: 1, AACSB: Analytic, AICPA BB: Legal/Regulatory, AICPA FN: Reporting, AICPA PC: Problem Solving, IMA: Reporting

172. Under IFRS
- comparative prior-period information must be presented, but financial statements need not be provided annually.
  - comparative prior-period informaton must be presented, and financial statements must be provided annually.
  - comparative prior-period information is not required, and financial statements need not be provided annually.
  - comparative prior-period information is not required, but financial statements must be provided annually.

IFRS. Ans: B, LO: 8, Bloom: K, Difficulty: Easy, Min: 1, AACSB: Analytic, AICPA BB: Legal/Regulatory, AICPA FN: Reporting, AICPA PC: Problem Solving, IMA: Reporting

173. The use of fair value to report assets
- is not allowed under GAAP or IFRS.
  - is required by GAAP and IFRS.
  - is increasing under GAAP and IFRS, but GAAP has adopted it more broadly.
  - is increasing under GAAP and IFRS, but IFRS has adopted it more broadly.

IFRS. Ans: D, LO: 8, Bloom: K, Difficulty: Easy, Min: 1, AACSB: Analytic, AICPA BB: Legal/Regulatory, AICPA FN: Reporting, AICPA PC: Problem Solving, IMA: Reporting

174. Under IFRS
- companies can apply fair value to property, plant, and equipment and natural resources.
  - companies can apply fair value to property, plant, and equipment but not to natural resources.
  - companies can apply fair value to neither property, plant, and equipment nor natural resources.
  - companies can apply fair value to natural resources but not to property, plant, and equipment.

IFRS. Ans: A, LO: 8, Bloom: K, Difficulty: Easy, Min: 1, AACSB: Analytic, AICPA BB: Legal/Regulatory, AICPA FN: Reporting, AICPA PC: Problem Solving, IMA: Reporting

175. The IASB and FASB are working on a converged statement of financial position using the headings of
- assets, liabilities, and owner's equity.
  - revenues and expenses.
  - assets, liabilities, revenues, expenses and owner's equity.
  - operating, investing, and financing.

Ans: D, LO: 8, Bloom: K, Difficulty: Easy, Min: 1, AACSB: Analytic, AICPA BB: Legal/Regulatory, AICPA FN: Reporting, AICPA PC: Problem Solving, IMA: Reporting

### Answers to Multiple Choice Questions

Item	Ans.	Item	Ans.	Item	Ans.	Item	Ans.	Item	Ans.	Item	Ans.	Item	Ans.
38.	d	58.	c	78.	d	98.	b	118.	c	138.	c	158.	d
39.	c	59.	d	79.	c	99.	b	119.	c	139.	c	159.	b
40.	b	60.	d	80.	c	100.	c	120.	c	140.	c	160.	c
41.	a	61.	c	81.	c	101.	c	121.	a	141.	c	161.	b
42.	c	62.	b	82.	b	102.	d	122.	c	142.	b	162.	c
43.	c	63.	c	83.	c	103.	c	123.	c	143.	c	163.	a
44.	d	64.	c	84.	b	104.	c	124.	a	144.	a	<sup>a</sup> 164.	c
45.	b	65.	c	85.	a	105.	c	125.	b	145.	b	165.	d
46.	d	66.	d	86.	a	106.	d	126.	b	146.	d	166.	d
47.	c	67.	b	87.	a	107.	c	127.	d	147.	c	167.	d
48.	c	68.	d	88.	d	108.	b	128.	a	148.	d	168.	d
49.	a	69.	d	89.	a	109.	c	129.	d	149.	d	169.	b
50.	b	70.	b	90.	b	110.	b	130.	a	150.	a	170.	c
51.	c	71.	d	91.	c	111.	c	131.	d	151.	a	171.	d
52.	c	72.	c	92.	b	112.	d	132.	c	<sup>a</sup> 152.	b	172.	b
53.	a	73.	a	93.	b	113.	c	133.	d	<sup>a</sup> 153.	a	173.	d
54.	c	74.	b	94.	c	114.	d	134.	b	154.	a	174.	a
55.	b	75.	d	95.	a	115.	d	135.	c	155.	b	175.	d
56.	b	76.	b	96.	a	116.	b	136.	c	156.	d		
57.	b	77.	c	97.	c	117.	a	137.	b	157.	b		

**BRIEF EXERCISES**

**BE 176**

Use the following income statement for the year 2014 for Belle Company to prepare entries to close the revenue and expense accounts for the company.

Service revenue		\$85,000
Expenses:		
Salaries and Wages Expense	\$40,000	
Rent Expense	12,500	
Advertising Expense	<u>8,700</u>	
Total expenses		<u>61,200</u>
Net income (loss)		<u>\$23,800</u>

Ans: N/A, LO: 2, Bloom: AN, Difficulty: Medium, Min: 5, AACSB: Analytic, AICPA BB: Industry/Sector Perspective, AICPA FN: Measurement, AICPA PC: Problem Solving, IMA: FSA

**Solution 176 (5 min.)**

Service Revenue .....	85,000	
Income Summary .....		85,000
Income Summary .....	61,200	
Salaries and Wages Expense .....		40,000
Rent Expense .....		12,500
Advertising Expense .....		8,700

**BE 177**

Sebastien Company earned net income of \$44,000 during 2014. The company had owner drawings totalling \$20,000 during the period. Prepare the entries to close Income Summary and the Owner’s Drawings account.

Ans: N/A, LO: 2, Bloom: AN, Difficulty: Medium, Min: 3, AACSB: Analytic, AICPA BB: Industry/Sector Perspective, AICPA FN: Measurement, AICPA PC: Problem Solving, IMA: FSA

**Solution 177 (3 min.)**

Income Summary .....	44,000	
Owner’s Capital .....		44,000
Owner’s Capital .....	20,000	
Owner’s Drawings.....		20,000

**BE 178**

At April 1, 2014, Spiderland Company reported a balance of \$20,000 in the Owner’s Capital account. Spiderland Company earned revenues of \$50,000 and incurred expenses of \$32,000 during April 2014. The company had owner drawings of \$10,000 during the month.

- (a) Prepare the entries to close Income Summary and the Owner’s Drawings account at April 30, 2014.
- (b) What is the balance in Owner’s Capital on the April 30, 2014 post-closing trial balance?

Ans: N/A, LO: 2, Bloom: AN, Difficulty: Medium, Min: 3, AACSB: Analytic, AICPA BB: Industry/Sector Perspective, AICPA FN: Measurement, AICPA PC: Problem Solving, IMA: FSA

**Solution 178** (3 min.)

(a) Income Summary.....	18,000	
Owner's Capital .....		18,000
Owner's Capital .....	10,000	
Owner's Drawings.....		10,000

(b)  $\$20,000 + \$18,000 - \$10,000 = \$28,000$

**BE 179**

Identify which of the following are temporary accounts of Sabrina Company.

- (1) Owner's Capital
- (2) Owner's Drawings
- (3) Equipment
- (4) Accumulated Depreciation
- (5) Depreciation Expense

Ans: N/A, LO: 2, Bloom: K, Difficulty: Easy, Min: 3, AACSB: None, AICPA BB: Legal/Regulatory, AICPA FN: Reporting, AICPA PC: Problem Solving, IMA: Reporting

**Solution 179** (3 min.)

(2) Owner's, Drawings, (5) Depreciation Expense

**BE 180**

Identify which of the following accounts would have balances on a post-closing trial balance.

- (1) Service Revenue
- (2) Income Summary
- (3) Notes Payable
- (4) Interest Expense
- (5) Cash

Ans: N/A, LO: 3, Bloom: K, Difficulty: Easy, Min: 3, AACSB: None, AICPA BB: Legal/Regulatory, AICPA FN: Reporting, AICPA PC: Problem Solving, IMA: Reporting

**Solution 180** (3 min.)

(3) Notes Payable, (5) Cash

**BE 181**

Prepare the necessary correcting entry for each of the following.

- a. A payment on account of \$840 was debited to Accounts Payable \$480 and credited to Cash \$480.
- b. The collection of Accounts Receivable of \$680 was recorded as a debit to Cash \$680 and a credit to Service Revenue \$680.

Ans: N/A, LO: 5, Bloom: AN, Difficulty: Medium, Min: 4, AACSB: Analytic, AICPA BB: Industry/Sector Perspective, AICPA FN: Measurement, AICPA PC: Problem Solving, IMA: FSA

**Solution 181** (4 min.)

a. Accounts Payable .....	360	
Cash.....		360
b. Service Revenue.....	680	
Accounts Receivable .....		680

**4 - 46 Test Bank for Accounting Principles, Eleventh Edition**

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**BE 182**

Prepare the necessary correcting entry for each of the following.

- a. A payment of \$5,000 for salaries was recorded as a debit to Supplies Expense and a credit to Cash.
- b. A purchase of supplies on account for \$1,000 was recorded as a debit to Equipment and a credit to Accounts Payable.

Ans: N/A, LO: 5, Bloom: AN, Difficulty: Medium, Min: 4, AACSB: Analytic, AICPA BB: Industry/Sector Perspective, AICPA FN: Measurement, AICPA PC: Problem Solving, IMA: FSA

**Solution 182 (4 min.)**

a. Salaries and Wages Expense .....	5,000	
Supplies Expense .....		5,000
b. Supplies .....	1,000	
Equipment .....		1,000

**BE 183**

The following accounts were included on Aeroplane Consultants adjusted trial balance at December 31, 2014:

Accounts payable	\$ 9,200
Accounts receivable	12,000
Cash	5,500
Owner's Capital	40,000
Owner's Drawings	10,000
Interest expense	3,000
Note payable, due 8/31/17	60,000
Supplies	1,000
Service revenue	39,000
Equipment	5,000

- (a) What are total current assets?
- (b) What are total current liabilities?

Ans: N/A, LO: 6, Bloom: AN, Difficulty: Medium, Min: 4, AACSB: Analytic, AICPA BB: Legal/Regulatory, AICPA FN: Reporting, AICPA PC: Problem Solving, IMA: Reporting

**Solution 183 (4 min.)**

- (a)  $\$12,000 + \$5,500 + \$1,000 = \$18,500$
- (b)  $\$9,200$

**BE 184**

The following items are taken from the adjusted trial balance of Westley Company for the month ending July 31, 2014:

Accounts payable	\$ 2,000
Accounts receivable	3,300
Accumulated depreciation – equipment	8,000
Cash	2,600
Depreciation expense	2,000
Equipment	54,000
Owner’s capital 7/1/14	52,000
Service revenue	33,000
Supplies	1,200

Prepare the current assets section of Westley’s classified balance sheet.

Ans: N/A, LO: 6, Bloom: AP, Difficulty: Medium, Min: 4, AACSB: Analytic, AICPA BB: Legal/Regulatory, AICPA FN: Reporting, AICPA PC: Problem Solving, IMA: Reporting

**Solution 184** (4 min.)

Current assets:

Cash	\$2,600
Accounts receivable	3,300
Supplies	<u>1,200</u>
Total current assets	<u>\$7,100</u>

**BE 185**

The following information is available for Elwes Company for the year ended December 31, 2014:

Accounts payable	\$ 3,800
Accumulated depreciation-equipment	4,000
Owner’s capital	9,300
Intangible assets	2,300
Notes payable (due in 5 years)	5,000
Accounts receivable	1,500
Cash	2,800
Short-term investments	1,000
Equipment	8,800
Long-term investments	5,700

**Instructions**

Use the above information to prepare a classified balance sheet for the year ended December 31, 2014.

Ans: N/A, LO: 6, Bloom: AP, Difficulty: Medium, Min: 10, AACSB: Analytic, AICPA BB: Legal/Regulatory, AICPA FN: Reporting, AICPA PC: Problem Solving, IMA: Reporting

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**Solution 185** (10 min.)

ELWES COMPANY  
Balance Sheet  
December 31, 2014

<u>Assets</u>			
Current assets			
Cash	\$2,800		
Short-term investments	1,000		
Accounts receivable	<u>1,500</u>		
Total current assets			\$5,300
Investments			
Long-term investments			5,700
Property, plant, and equipment			
Equipment	8,800		
Less: Accumulated depreciation-equipment	<u>4,000</u>	4,800	
Intangible assets			<u>2,300</u>
Total assets			<u>\$18,100</u>
<u>Liabilities and Owner's Equity</u>			
Current liabilities			
Accounts payable	\$3,800		
Long-term liabilities			
Notes payable	<u>5,000</u>		
Total liabilities			\$8,800
Owner's equity			
Owner's capital			<u>9,300</u>
Total liabilities and owner's equity			<u>\$18,100</u>

**BE 186**

The following lettered items represent a classification scheme for a balance sheet, and the numbered items represent accounts found on balance sheets. In the blank next to each account, write the letter indicating to which category it belongs.

- |   |  |
|---|--|
| <ul style="list-style-type: none"> <li>A. Current assets</li> <li>B. Long-term investments</li> <li>C. Property, plant, and equipment</li> <li>D. Intangible assets</li> </ul>  | <ul style="list-style-type: none"> <li>E. Current liabilities</li> <li>F. Long-term liabilities</li> <li>G. Owner's equity</li> <li>H. Not on the balance sheet</li> </ul>                                   |
| <ul style="list-style-type: none"> <li>_____ 1. Accumulated Depreciation</li> <li>_____ 2. Owner's Capital</li> <li>_____ 3. Interest Expense</li> <li>_____ 4. Salaries and Wages Payable</li> <li>_____ 5. Owner's, Drawings</li> </ul> | <ul style="list-style-type: none"> <li>_____ 6. Inventory</li> <li>_____ 7. Patents</li> <li>_____ 8. Prepaid Rent</li> <li>_____ 9. Mortgage Payable</li> <li>_____ 10. Land Held for Investment</li> </ul> |

Ans: N/A, LO: 6, Bloom: K, Difficulty: Easy, Min: 5, AACSB: None, AICPA BB: Legal/Regulatory, AICPA FN: Reporting, AICPA PC: Problem Solving, IMA: Reporting



**Solution 186** (5 min.)

- |      |       |
|------|-------|
| 1. C | 6. A  |
| 2. G | 7. D  |
| 3. H | 8. A  |
| 4. E | 9. F  |
| 5. H | 10. B |

**BE 187**

Inigo Company prepared the following adjusting entries at year end on December 31, 2014:

(a)	Interest Expense .....	250	
	Interest Payable.....		250
(b)	Interest Receivable.....	450	
	Interest Revenue .....		450
(c)	Salaries and Wages Expense.....	3,500	
	Salaries and Wages Payable.....		3,500

In an effort to minimize errors in recording transactions, Inigo Company utilizes reversing entries. Prepare reversing entries on January 1, 2015.

Ans: N/A, LO: 7, Bloom: AP, Difficulty: Medium, Min: 5, AACSB: Analytic, AICPA BB: Industry/Sector Perspective, AICPA FN: Measurement, AICPA PC: Problem Solving, IMA: FSA

**Solution 187** (5 min.)

(a)	Reverse the entry to accrue interest expense.		
	Interest Payable .....	250	
	Interest Expense.....		250
(b)	Reverse the entry to accrue interest revenue.		
	Interest Revenue .....	450	
	Interest Receivable .....		450
(c)	Reverse the entry to accrue salaries expense.		
	Salaries and Wages Payable.....	3,500	
	Salaries and Wages Expense.....		3,500

## EXERCISES

**Ex. 188**

The worksheet for Montoya Company has been completed through the adjusted trial balance. You are ready to extend each amount to the appropriate financial statement column. Indicate for each account, the financial statement column to which the account should be extended by placing a check mark (✓) in the appropriate column.

Account Title	Income Statement		Balance Sheet	
	Dr.	Cr.	Dr.	Cr.
(1) Cash				
(2) Owner's Capital				
(3) Mortgage Payable				
(4) Interest Receivable				
(5) Supplies				
(6) Accounts Payable				
(7) Short-term Investments				
(8) Maintenance and Repairs Expense				
(9) Unearned Service Revenue				
(10) Equipment				
(11) Depreciation Expense				
(12) Interest Revenue				
(13) Salaries and Wages Expense				
(14) Owner's Drawings				
(15) Accum. Deprec.—Equipment				
(16) Utilities Expense				
(17) Salaries and Wages Payable				
(18) Accounts Receivable				
(19) Notes Payable				
(20) Service Revenue				

Ans: N/A, LO: 1, Bloom: C, Difficulty: Medium, Min: 10, AACSB: None, AICPA BB: Industry/Sector Perspective, AICPA FN: Reporting, AICPA PC: Problem Solving, IMA: Reporting

**Solution 188** (10 min.)

Account Title	Income Statement		Balance Sheet	
	Dr.	Cr.	Dr.	Cr.
(1) Cash			√	
(2) Owner's Capital				√
(3) Mortgage Payable				√
(4) Interest Receivable			√	
(5) Supplies			√	
(6) Accounts Payable				√
(7) Short-term Investments			√	
(8) Maintenance and Repairs Expense	√			
(9) Unearned Service Revenue				√
(10) Equipment			√	
(11) Depreciation Expense	√			
(12) Interest Revenue		√		
(13) Salaries and Wages Expense	√			
(14) Owner's Drawings			√	
(15) Accum. Deprec.—Equipment				√
(16) Utilities Expense	√			
(17) Salaries and Wages Payable				√
(18) Accounts Receivable			√	
(19) Notes Payable				√
(20) Service Revenue		√		

## 4 - 52 Test Bank for Accounting Principles, Eleventh Edition

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### Ex. 189

Indicate the worksheet column (income statement Dr., balance sheet Cr., etc.) to which each of the following accounts would be extended.

<u>Account</u>	<u>Worksheet Column</u>
a. Accounts Receivable	_____
b. Accumulated Depreciation—Equip.	_____
c. Service Revenue	_____
d. Interest Expense	_____
e. Owner's Drawings	_____
f. Unearned Service Revenue	_____

Ans: N/A, LO: 1, Bloom: C, Difficulty: Easy, Min: 5, AACSB: None, AICPA BB: Industry/Sector Perspective, AICPA FN: Reporting, AICPA PC: Problem Solving, IMA: Reporting

### Solution 189 (5 min.)

- |                     |     |
|---------------------|-----|
| a. Balance sheet    | Dr. |
| b. Balance sheet    | Cr. |
| c. Income statement | Cr. |
| d. Income statement | Dr. |
| e. Balance sheet    | Dr. |
| f. Balance sheet    | Cr. |

### Ex. 190

The worksheet for Gibler Rental Company appears below. Using the adjustment data below, complete the worksheet. Add any accounts that are necessary.

#### Adjustment data:

- (a) Prepaid rent expired during August, \$3.
- (b) Depreciation expense on equipment for the month of August, \$8.
- (c) Supplies on hand on August 31 amounted to \$6.
- (d) Salaries and wages expense incurred at August 31 but not yet paid amounted to \$10.

Ex. 190 (Cont.)

GIBLER RENTAL COMPANY  
Worksheet  
For the Month Ended August 31, 2014

Account Titles	Trial Balance		Adjustments		Adjusted Trial Balance		Income Statement		Balance Sheet	
	Debit	Credit	Debit	Credit	Debit	Credit	Debit	Credit	Debit	Credit
Cash	20									
Accounts Receivable	12									
Prepaid Rent	8									
Supplies	10									
Equipment	50									
Accum. Depreciation— Equipment		10								
Accounts Payable		20								
Owner's Capital		29								
Owner's Drawings	2									
Rent Revenue		73								
Depreciation Expense	6									
Rent Expense	4									
Salaries and Wages Expense	<u>20</u>	<u>    </u>								
Totals	<u>132</u>	<u>132</u>								
Supplies Expense										
Salaries Payable			<u>    </u>	<u>    </u>	<u>    </u>	<u>    </u>	<u>    </u>	<u>    </u>	<u>    </u>	<u>    </u>
Totals			<u>    </u>	<u>    </u>	<u>    </u>	<u>    </u>	<u>    </u>	<u>    </u>	<u>    </u>	<u>    </u>
Net Income							<u>    </u>	<u>    </u>	<u>    </u>	<u>    </u>
Totals							<u>    </u>	<u>    </u>	<u>    </u>	<u>    </u>

Ans: N/A, LO: 1, Bloom: AN, Difficulty: Medium, Min: 15, AACSB: Analytic, AICPA BB: Legal/Regulatory, AICPA FN: Measurement, AICPA PC: Problem Solving, IMA: FSA

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**Solution 190** (15 min.)

GIBLER RENTAL COMPANY  
Worksheet  
For the Month Ended August 31, 2014

Account Titles	Trial Balance		Adjustments		Adjusted Trial Balance		Income Statement		Balance Sheet	
	Debit	Credit	Debit	Credit	Debit	Credit	Debit	Credit	Debit	Credit
Cash	20				20				20	
Accounts Receivable	12				12				12	
Prepaid Rent	8			(a) 3	5				5	
Supplies	10			(c) 4	6				6	
Equipment	50				50				50	
Accum. Depreciation— Equipment		10		(b) 8		18				18
Accounts Payable		20				20				20
Owner's Capital		29				29				29
Owner's Drawings	2				2				2	
Rent Revenue		73				73		73		
Depreciation Expense	6		(b) 8		14		14			
Rent Expense	4		(a) 3		7		7			
Salaries and Wages Expense	<u>20</u>	<u>    </u>	(d) 10		30		30			
Totals	<u>132</u>	<u>132</u>								
Supplies Expense			(c) 4		4		4			
Salaries and Wages Payable				(d) <u>10</u>	<u>    </u>	<u>10</u>	<u>    </u>	<u>    </u>	<u>    </u>	<u>10</u>
Totals			<u>25</u>	<u>25</u>	<u>150</u>	<u>150</u>	55	73	95	77
Net Income							<u>18</u>	<u>    </u>	<u>    </u>	<u>18</u>
Totals							<u>73</u>	<u>73</u>	<u>95</u>	<u>95</u>

**Ex. 191**

The account balances appearing on the trial balance (below) were taken from the general ledger of Irick’s Copy Shop at September 30.

Additional information for the month of September which has not yet been recorded in the accounts is as follows:

- (a) A physical count of supplies indicates \$300 on hand at September 30.
- (b) The amount of insurance that expired in the month of September was \$200.
- (c) Depreciation on equipment for September was \$400.
- (d) Rent owed on the copy shop for the month of September was \$600 but will not be paid until October.

**Instructions**

Using the above information, complete the worksheet on the following page for Irick’s Copy Shop for the month of September.

IRICK’S COPY SHOP  
Worksheet  
For the Month Ended September 30, 2014

Account Titles	Trial Balance		Adjustments		Adjusted Trial Balance		Income Statement		Balance Sheet	
	Debit	Credit	Debit	Credit	Debit	Credit	Debit	Credit	Debit	Credit
Cash	3,000									
Supplies	1,100									
Prepaid Insurance	2,200									
Equipment	24,000									
Accum. Depreciation— Equipment		4,500								
Accounts Payable		2,400								
Notes Payable		4,000								
Owner’s Capital		15,300								
Owner’s Drawings	2,400									
Service Revenue		6,900								
Utilities Expense	<u>400</u>	<u>        </u>								
Totals	<u>33,100</u>	<u>33,100</u>								
Supplies Expense										
Insurance Expense										
Depreciation Expense										
Rent Expense										
Rent Payable			<u>        </u>	<u>        </u>	<u>        </u>	<u>        </u>	<u>        </u>	<u>        </u>	<u>        </u>	<u>        </u>
Totals			<u>        </u>	<u>        </u>	<u>        </u>	<u>        </u>	<u>        </u>	<u>        </u>	<u>        </u>	<u>        </u>
Net Income							<u>        </u>	<u>        </u>	<u>        </u>	<u>        </u>
Totals							<u>        </u>	<u>        </u>	<u>        </u>	<u>        </u>

Ans: N/A, LO: 1, Bloom: AN, Difficulty: Medium, Min: 15, AACSB: Analytic, AICPA BB: Legal/Regulatory, AICPA FN: Measurement, AICPA PC: Problem Solving, IMA: FSA

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**Solution 191** (15 min.)

IRICK'S COPY SHOP  
Worksheet  
For the Month Ended September 30, 2014

Account Titles	Trial Balance		Adjustments		Adjusted Trial Balance		Income Statement		Balance Sheet	
	Debit	Credit	Debit	Credit	Debit	Credit	Debit	Credit	Debit	Credit
Cash	3,000				3,000				3,000	
Supplies	1,100			(a) 800	300				300	
Prepaid Insurance	2,200			(b) 200	2,000				2,000	
Equipment	24,000				24,000				24,000	
Accum. Depreciation— Equipment		4,500		(c) 400		4,900				4,900
Accounts Payable		2,400				2,400				2,400
Notes Payable		4,000				4,000				4,000
Owner's Capital		15,300				15,300				15,300
Owner's Drawings	2,400				2,400				2,400	
Service Revenue		6,900				6,900	6,900			
Utilities Expense	<u>400</u>				400		400			
Totals	<u>33,100</u>	<u>33,100</u>								
Supplies Expense			(a) 800		800		800			
Insurance Expense			(b) 200		200		200			
Depreciation Expense			(c) 400		400		400			
Rent Expense			(d) 600		600		600			
Rent Payable				(d) <u>600</u>		<u>600</u>				<u>600</u>
Totals			<u>2,000</u>	<u>2,000</u>	<u>34,100</u>	<u>34,100</u>	2,400	6,900	31,700	27,200
Net Income							<u>4,500</u>			<u>4,500</u>
Totals							<u>6,900</u>	<u>6,900</u>	<u>31,700</u>	<u>31,700</u>

**Ex. 192**

The adjustments columns of the worksheet for Mandy Company are shown below.

Account Titles	Adjustments	
	Debit	Credit
Accounts Receivable	800	
Prepaid Insurance		650
Accumulated Depreciation		770
Salaries and Wages Payable		1,200
Service Revenue		800
Salaries and Wages Expense	1,200	
Insurance Expense	650	
Depreciation Expense	<u>770</u>	
	<u>3,420</u>	<u>3,420</u>

**FOR INSTRUCTOR USE ONLY**



**Ex. 192** (Cont.)

**Instructions**

- (a) Prepare the adjusting entries.
- (b) Assuming the adjusted trial balance amount for each account is normal, indicate the financial statement column to which each balance should be extended.

Ans: N/A, LO: 1, Bloom: AN, Difficulty: Medium, Min: 10, AACSB: Analytic, AICPA BB: Legal/Regulatory, AICPA FN: Measurement, AICPA PC: Problem Solving, IMA: FSA

**Solution 192** (10 min.)

(a)

Accounts Receivable .....	800	
Service Revenue .....		800
Insurance Expense .....	650	
Prepaid Insurance .....		650
Depreciation Expense .....	770	
Accumulated Depreciation .....		770
Salaries and Wages Expense .....	1,200	
Salaries and Wages Payable .....		1,200

(b)

	Income Statement		Balance Sheet	
	Dr.	Cr.	Dr.	Cr.
Accounts Receivable			X	
Prepaid Insurance			X	
Accum. Depreciation				X
Salaries and Wages Payable				X
Service Revenue		X		
Salaries and Wages Expense	X			
Insurance Expense	X			
Depreciation Expense	X			

**Ex. 193**

Selected worksheet data for Patinkin Company are presented below.

Account Titles	Trial Balance		Adjusted Trial Balance	
	Dr.	Cr.	Dr.	Cr.
Accounts Receivable	?		31,000	
Prepaid Insurance	24,000		18,000	
Supplies	7,000		?	
Accumulated Depreciation		12,000		?
Salaries and Wages Payable		?		7,600
Service Revenue		85,000		100,000
Insurance Expense			?	
Depreciation Expense			9,000	
Supplies Expense			5,200	
Salaries and Wages Expense	?		49,000	

**4 - 58 Test Bank for Accounting Principles, Eleventh Edition**

**Ex. 193** (Cont.)

**Instructions**

- (a) Fill in the missing amounts.
- (b) Prepare the adjusting entries that were made.

Ans: N/A, LO: 1, Bloom: AN, Difficulty: Medium, Min: 10, AACSB: Analytic, AICPA BB: Legal/Regulatory, AICPA FN: Measurement, AICPA PC: Problem Solving, IMA: FSA

**Solution 193** (10 min.)

- (a) Accounts Receivable—\$16,000 (\$31,000 – \$15,000).  
 Supplies—\$1,800 (\$7,000 – \$5,200).  
 Accumulated Depreciation—\$21,000 (\$12,000 + \$9,000).  
 Salaries and Wages Payable—\$0 No liability recorded until adjustments are made.  
 Insurance Expense—\$6,000 (\$24,000 – \$18,000).  
 Salaries and Wages Expense—\$41,400 (\$49,000 – \$7,600).

(b)

Accounts Receivable .....	15,000	
Service Revenue.....		15,000
Insurance Expense .....	6,000	
Prepaid Insurance.....		6,000
Supplies Expense .....	5,200	
Supplies .....		5,200
Depreciation Expense.....	9,000	
Accumulated Depreciation .....		9,000
Salaries and Wages Expense.....	7,600	
Salaries and Wages Payable .....		7,600

**Ex. 194**

These financial statement items are for Rugen Company at year-end, July 31, 2014.

Salaries and wages payable	\$ 2,980	Notes payable (long-term)	\$ 3,000
Salaries and wages expense	45,700	Cash	5,200
Utilities expense	21,100	Accounts receivable	9,780
Equipment	38,000	Accumulated depreciation	6,000
Accounts payable	4,100	Owner's Drawings	4,000
Service revenue	57,200	Depreciation expense	4,000
Rent revenue	6,500	Owner's capital (beginning of the year)	48,000

**Instructions**

- (a) Prepare an income statement and an owner's equity statement for the year. The owner did not make any new investments during the year.
- (b) Prepare a classified balance sheet at July 31.

Ans: N/A, LO: 1,6, Bloom: AP, Difficulty: Hard, Min: 15, AACSB: Analytic, AICPA BB: Legal/Regulatory, AICPA FN: Measurement, AICPA PC: Problem Solving, IMA: FSA

**Solution 194 (15 min.)**

(a)

**RUGEN COMPANY**  
Income Statement  
For the Year Ended July 31, 2014

<hr/>		
Revenues		
Service revenue .....	\$57,200	
Rent revenue.....	<u>6,500</u>	
Total revenues .....		\$63,700
Expenses		
Salaries and wages expense.....	45,700	
Utilities expense .....	21,100	
Depreciation expense.....	<u>4,000</u>	
Total expense .....		<u>70,800</u>
Net loss.....		<u><u>\$ (7,100)</u></u>

**RUGEN COMPANY**  
Owner's Equity Statement  
For the Year Ended July 31, 2014

<hr/>		
Owner's Capital, August 1, 2013.....		\$48,000
Less: Net loss .....	\$7,100	
Drawings .....	<u>4,000</u>	<u>11,100</u>
Owner's Capital, July 31, 2014.....		<u><u>\$36,900</u></u>

(b)

**RUGEN COMPANY**  
Balance Sheet  
July 31, 2014

<hr/>		
Assets		
Current assets		
Cash .....	\$5,200	
Accounts receivable .....	<u>9,780</u>	
Total current assets .....		\$14,980
Property, plant, and equipment		
Equipment.....	38,000	
Less: Accumulated depreciation.....	<u>6,000</u>	<u>32,000</u>
Total assets .....		<u><u>\$46,980</u></u>
Liabilities and Owner's Equity		
Current liabilities		
Accounts payable .....	\$4,100	
Salaries and wages payable.....	<u>2,980</u>	
Total current liabilities .....		\$ 7,080
Long-term liabilities		
Notes payable .....		<u>3,000</u>
Total liabilities .....		10,080
Owner's equity		
Owner's capital.....		<u>36,900</u>
Total liabilities and owner's equity.....		<u><u>\$46,980</u></u>

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**4 - 60 Test Bank for Accounting Principles, Eleventh Edition**

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**Ex. 195**

Prepare the necessary closing entries based on the following selected accounts.

Accumulated Depreciation	\$10,000
Depreciation Expense	4,000
Owner's Capital	20,000
Owner's Drawings	12,000
Salaries and Wages Expense	18,000
Service Revenue	31,000

Ans: N/A, LO: 2, Bloom: AN, Difficulty: Medium, Min: 8, AACSB: Analytic, AICPA BB: Legal/Regulatory, AICPA FN: Measurement, AICPA PC: Problem Solving, IMA: FSA

**Solution 195 (8–10 min.)**

Service Revenue .....	31,000	
Income Summary .....		31,000
Income Summary .....	22,000	
Depreciation Expense .....		4,000
Salaries and Wages Expense .....		18,000
Income Summary .....	9,000	
Owner's Capital .....		9,000
Owner's Capital .....	12,000	
Owner's Drawings .....		12,000

**Ex. 196**

All revenue and expense accounts have been closed at the end of the calendar year for Patton Company. The Income Summary account has total debits of \$530,000 and total credits of \$600,000. As of the same date, Owner's Capital has a balance of \$115,000, and Owner's Drawings has a balance of \$48,000.

**Instructions**

- (a) Journalize the entries required to complete the closing of the accounts.
- (b) Prepare an owner's equity statement for the year ended December 31, 2014.

Ans: N/A, LO: 2, Bloom: AP, Difficulty: Medium, Min: 10, AACSB: Analytic, AICPA BB: Legal/Regulatory, AICPA FN: Measurement, AICPA PC: Problem Solving, IMA: FSA

**Solution 196 (10 min.)**

(a) Income Summary .....	70,000	
Owner's Capital .....		70,000
(To close net income to capital)		
Owner's Capital .....	48,000	
Owner's Drawings .....		48,000
(To close drawings to capital)		

**Solution 196** (cont.)

(b)

**PATTON COMPANY**  
**Owner's Equity Statement**  
**For the Year Ended December 31, 2014**

Owner's Capital, January 1	\$115,000
Add: Net income	<u>70,000</u>
	185,000
Less: Drawings	<u>48,000</u>
Owner's Capital, December 31	<u>\$137,000</u>

**Ex. 197**

At March 31, account balances after adjustments for Vizzini Cinema are as follows:

<u>Accounts</u>	<u>Account Balances (After Adjustment)</u>
Cash	\$ 11,000
Supplies	4,000
Equipment	50,000
Accumulated Depreciation—Equipment	12,000
Accounts Payable	5,000
Owner's, Capital	20,000
Owner's, Drawings	12,000
Ticket Revenue	65,000
Service Revenue	53,000
Advertising Expense	18,000
Supplies Expense	19,000
Depreciation Expense	4,000
Rent Expense	28,000
Salaries and Wages Expense	24,000
Utilities Expense	5,000

**Instructions**

Prepare the closing journal entries for Vizzini Cinema.

Ans: N/A, LO: 2, Bloom: AP, Difficulty: Medium, Min: 10, AACSB: Analytic, AICPA BB: Legal/Regulatory, AICPA FN: Measurement, AICPA PC: Problem Solving, IMA: FSA

**Solution 197** (10 min.)

Mar.	31	Ticket Revenue .....	65,000	
		Service Revenue .....	53,000	
		Income Summary .....		118,000
		(To close revenue accounts)		

**4 - 62 Test Bank for Accounting Principles, Eleventh Edition**

**Solution 197 (cont.)**

31	Income Summary .....	98,000	
	Advertising Expense.....		18,000
	Supplies Expense.....		19,000
	Depreciation Expense .....		4,000
	Rent Expense.....		28,000
	Salaries and Wages Expense.....		24,000
	Utilities Expense.....		5,000
	(To close expense accounts)		
31	Income Summary .....	20,000	
	Owner's Capital.....		20,000
	(To transfer net income to capital)		
31	Owner's Capital.....	12,000	
	Owner's Drawings .....		12,000
	(To close drawings to capital)		

**Ex. 198**

Presented below is an adjusted trial balance for Shawn Company, at December 31, 2014.

Cash	\$ 7,700	Accounts payable	\$10,000
Accounts receivable	20,000	Notes payable	9,000
Prepaid insurance	15,000	Accumulated depreciation—	
Equipment	35,000	Equipment	14,000
Depreciation expense	7,000	Service revenue	29,000
Owner's Drawings	1,500	Owner's capital	24,000
Advertising expense	1,400	Unearned service revenue	16,000
Rent expense	800		
Salaries and wages expense	12,000		
Insurance expense	1,600		
	<u>\$102,000</u>		<u>\$102,000</u>

**Instructions**

- (a) Prepare closing entries for December 31, 2014.
- (b) Determine the balance in the Owner's Capital account after the entries have been posted.

Ans: N/A, LO: 2, Bloom: AP, Difficulty: Medium, Min: 10, AACSB: Analytic, AICPA BB: Legal/Regulatory, AICPA FN: Measurement, AICPA PC: Problem Solving, IMA: FSA

**Solution 198 (10 min.)**

(a) Computation of Net Income:		
Service revenue		\$29,000
Depreciation expense	\$7,000	
Salaries and wages expense	12,000	
Insurance expense	1,600	
Advertising expense	1,400	
Rent expense	800	<u>22,800</u>
Net Income		<u>\$6,200</u>

**Solution 198** (cont.)

Dec. 31	Service Revenue .....	29,000	
	Income Summary .....		29,000
	(To close revenue account)		
31	Income Summary .....	22,800	
	Depreciation Expense .....		7,000
	Advertising Expense .....		1,400
	Rent Expense .....		800
	Salaries and Wages Expense .....		12,000
	Insurance Expense .....		1,600
	(To close expense accounts)		
31	Income Summary .....	6,200	
	Owner's Capital .....		6,200
	(To close net income to capital)		
31	Owner's Capital .....	1,500	
	Owner's Drawings .....		1,500
	(To close drawings to capital)		

(b)

Owner's Capital	
1,500	24,000
	6,200
Bal.	28,700

**Ex. 199**

The adjusted account balances of the Fitness Center at July 31 are as follows:

<u>Accounts</u>	<u>Account Balances</u>	<u>Accounts</u>	<u>Account Balances</u>
Cash	\$ 16,000	Service Revenue	\$105,000
Accounts Receivable	15,000	Interest Revenue	8,000
Supplies	4,000	Depreciation Expense	27,000
Prepaid Insurance	8,000	Insurance Expense	6,000
Buildings	300,000	Salaries and Wages Expense	35,000
Accumulated Depreciation—		Supplies Expense	9,000
Buildings	120,000	Utilities Expense	12,000
Accounts Payable	19,000		
Owner's Capital	195,000		
Owner's Drawings	15,000		

**Instructions**

Prepare the end of the period closing entries for the Fitness Center.

Ans: N/A, LO: 2, Bloom: AP, Difficulty: Medium, Min: 10, AACSB: Analytic, AICPA BB: Legal/Regulatory, AICPA FN: Measurement, AICPA PC: Problem Solving, IMA: FSA

**4 - 64 Test Bank for Accounting Principles, Eleventh Edition**

**Solution 199** (10 min.)

July 31	Service Revenue.....	105,000	
	Interest Revenue.....	8,000	
	Income Summary .....		113,000
	(To close revenue accounts)		
31	Income Summary.....	89,000	
	Depreciation Expense .....		27,000
	Insurance Expense.....		6,000
	Salaries and Wages Expense.....		35,000
	Supplies Expense.....		9,000
	Utilities Expense.....		12,000
	(To close expense accounts)		
31	Income Summary.....	24,000	
	Owner's Capital.....		24,000
	(To close net income to capital)		
31	Owner's Capital.....	15,000	
	Owner's Drawings .....		15,000
	(To close drawings to capital)		

**Ex. 200**

The income statement of Fezzik's Shoe Repair is as follows:

**FEZZIK'S SHOE REPAIR**  
Income Statement  
For the Month Ended April 30, 2014

Revenue		
Service Revenue .....		\$9,500
Expenses		
Salaries and Wages Expense.....	\$4,200	
Depreciation Expense.....	350	
Utilities Expense .....	400	
Rent Expense.....	600	
Supplies Expense.....	<u>1,050</u>	
Total Expenses.....		<u>6,600</u>
Net Income.....		<u>\$2,900</u>

On April 1, the Owner's Capital account had a balance of \$12,900. During April, Fezzik withdrew \$3,000 cash for personal use.

**Instructions**

- (a) Prepare closing entries at April 30.
- (b) Prepare an owner's equity statement for the month of April.

Ans: N/A, LO: 2, Bloom: AP, Difficulty: Medium, Min: 10, AACSB: Analytic, AICPA BB: Legal/Regulatory, AICPA FN: Measurement, AICPA PC: Problem Solving, IMA: FSA



**Solution 200** (10 min.)

(a) Service Revenue .....	9,500	
Income Summary .....		9,500
Income Summary.....	6,600	
Salaries and Wages Expense .....		4,200
Supplies Expense.....		1,050
Rent Expense .....		600
Utilities Expense.....		400
Depreciation Expense .....		350
Income Summary.....	2,900	
Owner's Capital.....		2,900
Owner's Capital .....	3,000	
Owner's Drawings .....		3,000

(b) **FEZZIK'S SHOE REPAIR**  
**Owner's Equity Statement**  
**For the Month Ended April 30, 2014**

Owner's Capital, April 1	\$12,900
Add: Net Income	<u>2,900</u>
	15,800
Less: Drawings	<u>3,000</u>
Owner's Capital, April 30	<u>\$12,800</u>

**Ex. 201**

Identify which of the following accounts would appear in a post-closing trial balance.

- |                                    |                  |
|------------------------------------|------------------|
| Accumulated Depreciation—Equipment | Owner's Drawings |
| Depreciation Expense               | Service Revenue  |
| Interest Payable                   | Equipment        |

Ans: N/A, LO: 3, Bloom: C, Difficulty: Easy, Min: 3, AACSB: None, AICPA BB: Legal/Regulatory, AICPA FN: Measurement, AICPA PC: Problem Solving, IMA: FSA

**Solution 201** (3 min.)

The following accounts would appear in a post-closing trial balance:

- Accumulated Depreciation—Equipment
- Interest Payable
- Equipment

**Ex. 202**

The trial balances of Orton Company follow with the accounts arranged in alphabetic order. Analyze the data and prepare (a) the adjusting entries and (b) the closing entries made by Orton Company.

	Trial Balances		
	Unadjusted	Adjusted	Post-Closing
Accounts Payable	\$10,000	\$10,000	\$10,000
Accounts Receivable	2,200	3,200	3,200
Accumulated Depreciation—Equipment	13,000	17,000	17,000
Advertising Expense	0	16,300	0
Cash	60,000	60,000	60,000
Depreciation Expense	0	4,000	0
Equipment	75,000	75,000	75,000
Owner’s Capital	82,200	82,200	102,400
Owner’s Drawings	11,000	11,000	0
Prepaid Advertising	17,800	1,500	1,500
Prepaid Rent	15,000	11,000	11,000
Rent Expense	0	4,000	0
Service Revenue	96,000	105,000	0
Supplies	3,200	700	700
Supplies Expense	2,000	4,500	0
Unearned Service Revenue	23,000	15,000	15,000
Salaries and Wages Expense	38,000	45,000	0
Salaries and Wages Payable	0	7,000	7,000

Ans: N/A, LO: 3, Bloom: AN, Difficulty: Medium, Min: 20, AACSB: Analytic, AICPA BB: Legal/Regulatory, AICPA FN: Measurement, AICPA PC: Problem Solving, IMA: FSA

**Solution 202** (20 min.)

(a)

Adjusting Entries		
Depreciation Expense.....	4,000	
Accumulated Depreciation—Equipment.....		4,000
Advertising Expense.....	16,300	
Prepaid Advertising.....		16,300
Unearned Service Revenue.....	8,000	
Service Revenue.....		8,000
Accounts Receivable.....	1,000	
Service Revenue.....		1,000
Rent Expense.....	4,000	
Prepaid Rent.....		4,000
Supplies Expense.....	2,500	
Supplies.....		2,500
Salaries and Wages Expense.....	7,000	
Salaries and Wages Payable.....		7,000

**Solution 202** (cont.)

(b)	Closing Entries		
Service Revenue .....		105,000	
Income Summary.....			105,000
Income Summary .....		73,800	
Advertising Expense .....			16,300
Depreciation Expense.....			4,000
Rent Expense .....			4,000
Supplies Expense .....			4,500
Salaries and Wages Expense .....			45,000
Income Summary .....		31,200	
Owner's Capital .....			31,200
Owner's Capital.....		11,000	
Owner's Drawings.....			11,000

**Ex. 203**

Indicate the proper sequence of the steps in the accounting cycle by placing numbers 1-8 in the blank spaces.

- \_\_\_ a. Analyze business transactions.
- \_\_\_ b. Journalize and post adjusting entries.
- \_\_\_ c. Journalize and post closing entries.
- \_\_\_ d. Journalize the transactions.
- \_\_\_ e. Prepare a post-closing trial balance.
- \_\_\_ f. Prepare a trial balance.
- \_\_\_ g. Prepare financial statements.
- \_\_\_ h. Post to ledger accounts.

Ans: N/A, LO: 4, Bloom: C, Difficulty: Easy, Min: 4, AACSB: None, AICPA BB: Legal/Regulatory, AICPA FN: Measurement, AICPA PC: Problem Solving, IMA: FSA

**Solution 203** (4 min.)

- |      |      |
|------|------|
| a. 1 | e. 8 |
| b. 6 | f. 4 |
| c. 7 | g. 5 |
| d. 2 | h. 3 |

**Ex. 204**

Prepare the necessary correcting entry for each of the following.

- a. A collection on account of \$350 from a customer was credited to Accounts Receivable \$530 and debited to Cash \$530.
- b. The purchase of supplies on account for \$310 was recorded as a debit to Equipment \$310 and a credit to Accounts Payable \$310.

Ans: N/A, LO: 5, Bloom: AN, Difficulty: Medium, Min: 5, AACSB: Analytic, AICPA BB: Legal/Regulatory, AICPA FN: Measurement, AICPA PC: Problem Solving, IMA: FSA

**Solution 204 (5 min.)**

a. Accounts Receivable .....	180	
Cash .....		180
b. Supplies .....	310	
Equipment .....		310

**Ex. 205**

An examination of the accounts of Savage Company for the month of June revealed the following errors after the transactions were journalized and posted.

1. A check for \$800 from R. Wright, a customer on account, was debited to Cash \$800 and credited to Service Revenue, \$800.
2. A payment for Advertising Expense costing \$630 was debited to Utilities Expense, \$360 and credited to Cash \$360.
3. A bill for \$850 for Supplies purchased on account was debited to Equipment, \$580 and credited to Accounts Payable \$580.

**Instructions**

Prepare correcting entries for each of the above assuming the erroneous entries are not reversed. Explain how the transaction as originally recorded affected net income for the month of June.

Ans: N/A, LO: 5, Bloom: AN, Difficulty: Medium, Min: 10, AACSB: Analytic, AICPA BB: Legal/Regulatory, AICPA FN: Measurement, AICPA PC: Problem Solving, IMA: FSA

**Solution 205 (10 min.)**

1. Service Revenue .....	800	
Accounts Receivable .....		800
(To correct error in recording collection of accounts receivable)		
The transaction as originally recorded overstated net income by \$800.		
2. Advertising Expense .....	630	
Utilities Expense .....		360
Cash .....		270
(To correct errors in recording advertising expense)		

The transaction as originally recorded overstated net income by \$270.

**Solution 205** (cont.)

3. Supplies .....	850	
Equipment .....		580
Accounts Payable.....		270
(To correct error in recording office supplies)		

The transaction as originally recorded had no effect on net income.

**Ex. 206**

As Mel Smith was doing his year-end accounting, he noticed that the bookkeeper had made errors in recording several transactions. The erroneous transactions are as follows:

- (a) A check for \$700 was issued for goods previously purchased on account. The bookkeeper debited Accounts Receivable and credited Cash for \$700.
- (b) A check for \$180 was received as payment on account. The bookkeeper debited Accounts Payable for \$810 and credited Accounts Receivable for \$810.
- (c) When making the entry to record the year’s depreciation expense, the bookkeeper debited Accumulated Depreciation—Equipment for \$1,000 and credited Cash for \$1,000.
- (d) When accruing interest on a note payable, the bookkeeper debited Interest Receivable for \$200 and credited Interest Payable for \$200.

**Instructions**

Prepare the appropriate correcting entries. (Do not reverse the original entries.)

Ans: N/A, LO: 5, Bloom: AN, Difficulty: Medium, Min: 5, AACSB: Analytic, AICPA BB: Legal/Regulatory, AICPA FN: Measurement, AICPA PC: Problem Solving, IMA: FSA

**Solution 206** (5 min.)

(a) Accounts Payable.....	700	
Accounts Receivable .....		700
(b) Cash .....	180	
Accounts Receivable .....	630	
Accounts Payable.....		810
(c) Cash .....	1,000	
Depreciation Expense .....	1,000	
Accumulated Depreciation—Equipment.....		2,000
(d) Interest Expense .....	200	
Interest Receivable .....		200

**Ex. 207**

Peter Cook, CPA, was asked by Carol Kane to review the accounting records and prepare the financial statements for her upholstery shop. Peter reviewed the records and found three errors.

1. Cash paid on accounts payable for \$930 was recorded as a debit to Accounts Payable \$390 and a credit to Cash \$390.
2. The purchase of supplies on account for \$600 was debited to Equipment \$600 and credited to Accounts Payable \$600.
3. Carol withdrew \$1,300 of cash and the bookkeeper debited Accounts Receivable for \$130 and credited Cash \$130.

**Ex. 207** (Cont.)

**Instructions**

Prepare an analysis of each error showing the

- (a) incorrect entry.
- (b) correct entry.
- (c) correcting entry.

Ans: N/A, LO: 5, Bloom: AN, Difficulty: Medium, Min: 15, AACSB: Analytic, AICPA BB: Legal/Regulatory, AICPA FN: Measurement, AICPA PC: Problem Solving, IMA: FSA

**Solution 207** (15 min.)

1. (a)	<u>Incorrect Entry</u>		
	Accounts Payable .....	390	
	Cash.....		390
(b)	<u>Correct Entry</u>		
	Accounts Payable .....	930	
	Cash.....		930
(c)	<u>Correcting Entry</u>		
	Accounts Payable .....	540	
	Cash.....		540
2. (a)	<u>Incorrect Entry</u>		
	Equipment.....	600	
	Accounts Payable.....		600
(b)	<u>Correct Entry</u>		
	Supplies .....	600	
	Accounts Payable.....		600
(c)	<u>Correcting Entry</u>		
	Supplies .....	600	
	Equipment .....		600
3. (a)	<u>Incorrect Entry</u>		
	Accounts Receivable.....	130	
	Cash.....		130
(b)	<u>Correct Entry</u>		
	Owner's Drawings .....	1,300	
	Cash.....		1,300
(c)	<u>Correcting Entry</u>		
	Owner's Drawings .....	1,300	
	Accounts Receivable .....		130
	Cash.....		1,170

**Ex. 208**

Wakefield Company discovered the following errors made in January 2014.

1. A payment of salaries expense of \$900 was debited to Equipment and credited to Cash, both for \$900.
2. A collection of \$2,000 from a client on account was debited to Cash \$200 and credited to Service Revenue \$200.
3. The purchase of equipment on account for \$680 was debited to Equipment \$860 and credited to Accounts Payable \$860.

**Instructions**

Correct the errors by reversing the incorrect entry and preparing the correct entry.

Ans: N/A, LO: 5, Bloom: AN, Difficulty: Medium, Min: 10, AACSB: Analytic, AICPA BB: Legal/Regulatory, AICPA FN: Measurement, AICPA PC: Problem Solving, IMA: FSA

**Solution 208** (10 min.)

1.	Cash.....	900	
	Equipment.....		900
	Salaries and Wages Expense .....	900	
	Cash.....		900
2.	Service Revenue .....	200	
	Cash.....		200
	Cash .....	2,000	
	Accounts Receivable .....		2,000
3.	Accounts Payable.....	860	
	Equipment .....		860
	Equipment .....	680	
	Accounts Payable .....		680

**Ex. 209**

The following items were taken from the financial statements of Buttercup Company. (All dollars are in thousands.)

Mortgage payable	\$ 2,443	Accumulated depreciation	3,655
Prepaid expenses	880	Accounts payable	1,444
Property, plant, and equipment	11,500	Notes payable after 2015	1,200
Long-term investments	1,100	Owner's capital	13,480
Short-term investments	3,690	Accounts receivable	1,696
Notes payable in 2015	1,000	Inventories	1,756
Cash	2,600		

#### 4 - 72 Test Bank for Accounting Principles, Eleventh Edition

**Ex. 209** (Cont.)

**Instructions**

Prepare a classified balance sheet in good form as of December 31, 2014.

Ans: N/A, LO: 6, Bloom: AP, Difficulty: Medium, Min: 10, AACSB: Analytic, AICPA BB: Legal/Regulatory, AICPA FN: Reporting, AICPA PC: Problem Solving, IMA: Reporting

**Solution 209** (10 min.)

**BUTTERCUP COMPANY**  
Balance Sheet  
December 31, 2014  
(in thousands)

Assets	
Current assets	
Cash.....	\$ 2,600
Short-term investments.....	3,690
Accounts receivable.....	1,696
Inventories.....	1,756
Prepaid expenses.....	<u>880</u>
Total current assets .....	\$10,622
Long-term investments.....	1,100
Property, plant, and equipment	
Property, plant, and equipment.....	11,500
Less: Accumulated depreciation .....	<u>3,655</u>
Total assets .....	<u>\$19,567</u>
Liabilities and Owner's Equity	
Current liabilities	
Notes payable in 2015.....	\$ 1,000
Accounts payable .....	<u>1,444</u>
Total current liabilities .....	\$ 2,444
Long-term liabilities	
Mortgage payable.....	2,443
Notes payable (after 2015) .....	<u>1,200</u>
Total long-term liabilities.....	<u>3,643</u>
Total liabilities .....	6,087
Owner's equity	
Owner's capital.....	<u>13,480</u>
Total liabilities and owner's equity .....	<u>\$19,567</u>

**Ex. 210**

Compute the dollar amount of current assets based on the following account balances.

Accounts Receivable	\$22,000
Accumulated Depreciation—Equipment	27,000
Cash	8,400
Equipment	93,000
Prepaid Rent	7,000
Short-term Investments	15,000

Ans: N/A, LO: 6, Bloom: AN, Difficulty: Medium, Min: 4, AACSB: Analytic, AICPA BB: Legal/Regulatory, AICPA FN: Reporting, AICPA PC: Problem Solving, IMA: Reporting



**Solution 210 (4 min.)**

Current assets amount = \$52,400 (\$22,000 + \$8,400 + \$7,000 + \$15,000)

**Ex. 211**

The financial statement columns of the worksheet for Miracle Max at December 31, 2014, are as follows:

MIRACLE MAX Worksheet For the Year Ended December 31, 2014				
<u>Accounts</u>	<u>Income Statement</u>		<u>Balance Sheet</u>	
	<u>Debit</u>	<u>Credit</u>	<u>Debit</u>	<u>Credit</u>
Cash			13,000	
Accounts Receivable			7,000	
Supplies			4,000	
Prepaid Insurance			6,000	
Equipment			207,000	
Accumulated Depreciation—Equipment				29,000
Accounts Payable				19,000
Notes Payable				70,000
Salaries and Wages Payable				3,000
Owner's Capital				112,000
Owner's Drawings			18,000	
Service Revenue		123,000		
Advertising Expense	21,000			
Depreciation Expense	12,000			
Insurance Expense	3,000			
Rent Expense	17,000			
Salaries and Wages Expense	42,000			
Supplies Expense	6,000			
Totals	<u>101,000</u>	<u>123,000</u>	<u>255,000</u>	<u>233,000</u>
Net Income	<u>22,000</u>			<u>22,000</u>
	<u>123,000</u>	<u>123,000</u>	<u>255,000</u>	<u>255,000</u>

**Instructions**

- (a) Calculate the balance of Owner's Capital that would appear on a balance sheet at December 31, 2014.
- (b) Prepare a classified balance sheet for Miracle Max at December 31, 2014 assuming the note payable is a long-term liability.

Ans: N/A, LO: 6, Bloom: AP, Difficulty: Medium, Min: 15, AACSB: Analytic, AICPA BB: Legal/Regulatory, AICPA FN: Reporting, AICPA PC: Problem Solving, IMA: Reporting

**Solution 211 (15 min.)**

(a) Owner's Capital, January 1	\$112,000
Add: Net Income	<u>22,000</u>
	134,000
Less: Drawings	<u>18,000</u>
Owner's Capital, December 31	<u>\$116,000</u>

Solution 211 (Cont.)

(b)

MIRACLE MAX  
Balance Sheet  
December 31, 2014

Assets		
Current assets		
Cash.....		\$ 13,000
Accounts receivable .....		7,000
Supplies .....		4,000
Prepaid insurance .....		<u>6,000</u>
Total current assets.....		30,000
Property, plant, and equipment		
Equipment.....	\$207,000	
Less: Accumulated depreciation—Equipment.....	<u>29,000</u>	<u>178,000</u>
Total assets.....		<u>\$208,000</u>
Liabilities and Owner's Equity		
Current liabilities		
Accounts payable .....		\$ 19,000
Salaries and wages payable.....		<u>3,000</u>
Total current liabilities.....		22,000
Long-term liabilities		
Notes payable .....		<u>70,000</u>
Total liabilities.....		92,000
Owner's equity		
Owner's capital.....		<u>116,000</u>
Total liabilities and owner's equity .....		<u>\$208,000</u>

**Ex. 212**

The financial statement columns of the worksheet for Booer Company as of December 31, 2014 are as follows:

**BOOER COMPANY**  
Worksheet  
For the Year Ended December 31, 2014

<u>Accounts</u>	<u>Income Statement</u>		<u>Balance Sheet</u>	
	<u>Debit</u>	<u>Credit</u>	<u>Debit</u>	<u>Credit</u>
Cash			8,000	
Accounts Receivable			26,000	
Supplies			4,500	
Prepaid Insurance			7,000	
Equipment			41,000	
Accumulated Depreciation—Equipment				4,800
Patents			7,500	
Accounts Payable				22,200
Notes Payable (due 2018)				20,000
Owner's Capital				43,300
Owner's Drawings			4,200	
Service Revenue		26,400		
Salaries and Wages Expense	5,200			
Depreciation Expense	4,800			
Insurance Expense	5,000			
Interest Expense	3,500			
Totals	18,500	26,400	98,200	90,300
Net Income	7,900			7,900
	<u>26,400</u>	<u>26,400</u>	<u>98,200</u>	<u>98,200</u>

**Instructions**

Prepare a classified balance sheet for Booer Company.

Ans: N/A, LO: 6, Bloom: AP, Difficulty: Medium, Min: 15, AACSB: Analytic, AICPA BB: Legal/Regulatory, AICPA FN: Reporting, AICPA PC: Problem Solving, IMA: Reporting

**Solution 212** (15 min.)

BOOER COMPANY  
Balance Sheet  
December 31, 2014

<u>Assets</u>		
Current assets		
Cash .....		\$8,000
Accounts receivable.....		26,000
Supplies.....		4,500
Prepaid insurance.....		<u>7,000</u>
Total current assets .....		45,500
Property, Plant, and Equipment		
Equipment .....	\$41,000	
Less: Accumulated depreciation—equipment .....	<u>4,800</u>	36,200
Intangible assets		
Patents .....		<u>7,500</u>
Total assets .....		<u>\$89,200</u>
<u>Liabilities and Owner's Equity</u>		
Current liabilities		
Accounts payable .....		\$22,200
Long-term liabilities		
Notes payable.....		<u>20,000</u>
Total liabilities .....		42,200
Owner's Equity		
Owner's capital .....		<u>47,000*</u>
Total liabilities and owner's equity .....		<u>\$89,200</u>

\* Owner's capital = \$47,000 (\$43,300 + \$7,900 – \$4,200).

**<sup>a</sup>Ex. 213**

Reisner Company prepared the following adjusting entries at year end on December 31, 2014:

(a)	Interest Expense.....	150	
	Interest Payable .....		150
(b)	Unearned Revenue.....	1,500	
	Service Revenue.....		1,500
(c)	Insurance Expense.....	1,200	
	Prepaid Insurance.....		1,200
(d)	Interest Receivable.....	100	
	Interest Revenue.....		100
(e)	Supplies Expense.....	250	
	Supplies.....		250
(f)	Salaries and Wages Expense.....	3,000	
	Salaries and Wages Payable .....		3,000

**Ex. 213 (Cont.)**

In an effort to minimize errors in recording transactions, Reisner Company utilizes reversing entries.

**Instructions**

Prepare reversing entries on January 1, 2015, for the adjusting entries given where appropriate.

Ans: N/A, LO: 7, Bloom: AN, Difficulty: Medium, Min: 15, AACSB: Analytic, AICPA BB: Legal/Regulatory, AICPA FN: Measurement, AICPA PC: Problem Solving, IMA: FSA

**<sup>a</sup>Solution 213 (15 min.)**

Reversing entries are appropriate for adjusting entries related to accrued revenues and accrued expenses. Three of the entries given are accruals and need to be reversed.

(a)	Reverse the entry to accrue interest expense.		
	Interest Payable .....	150	
	Interest Expense .....		150
(d)	Reverse the entry to accrue interest revenue.		
	Interest Revenue .....	100	
	Interest Receivable .....		100
(f)	Reverse the entry to accrue salaries and wages expense.		
	Salaries and Wages Payable.....	3,000	
	Salaries and Wages Expense .....		3,000

**<sup>a</sup>Ex. 214**

On December 31, 2014 the adjusted trial balance of the Yellin Personnel Agency shows the following selected data:

- Accounts Receivable, \$8,000
- Service Revenue, \$60,000
- Interest Expense, \$10,500
- Interest Payable, \$3,500
- Utilities Expense, \$4,800
- Accounts Payable, \$2,700

Analysis indicates that adjusting entries were made for (a) \$8,000 of employment commission revenue earned but not billed, (b) \$3,500 of accrued but unpaid interest, and (c) \$2,700 of utilities expense accrued but not paid.

**Instructions**

- (a) Prepare the closing entries at December 31, 2014.
- (b) Prepare the reversing entries on January 1, 2015.
- (c) Enter the adjusted trial balance data in T-accounts. Post the entries in (a) and (b) and rule and balance the accounts.
- (d) Prepare the entries to record (1) the collection of the accrued commission on January 8, (2) payment of the utility bill on January 10, and (3) payment of all the interest due (\$4,000) on January 15.
- (e) Post the entries in (d) to the temporary accounts.
- (f) What is the interest expense for the month of January 2015?

Ans: N/A, LO: 7, Bloom: AN, Difficulty: Medium, Min: 25, AACSB: Analytic, AICPA BB: Legal/Regulatory, AICPA FN: Measurement, AICPA PC: Problem Solving, IMA: FSA

**4 - 78 Test Bank for Accounting Principles, Eleventh Edition**

**<sup>a</sup>Solution 214** (25 min.)

(a) (1)	Service Revenue .....	60,000	
	Income Summary .....		60,000
(2)	Income Summary .....	15,300	
	Interest Expense .....		10,500
	Utilities Expense.....		4,800
(3)	Income Summary .....	44,700	
	Owner's Capital.....		44,700
(b) (1)	Service Revenue .....	8,000	
	Accounts Receivable.....		8,000
(2)	Interest Payable .....	3,500	
	Interest Expense .....		3,500
(3)	Accounts Payable .....	2,700	
	Utilities Expense.....		2,700

(c) and (e)

Accounts Receivable		Service Revenue	
(A) 8,000	(R) 8,000	(C) <u>60,000</u>	(A) <u>60,000</u>
		(R) 8,000	(D) 8,000
Interest Expense		Interest Payable	
(A) <u>10,500</u>	(C) <u>10,500</u>	(R) 3,500	(A) 3,500
(D) 4,000	(R) 3,500		
Utilities Expense		Accounts Payable	
(A) <u>4,800</u>	(C) <u>4,800</u>	(R) 2,700	(A) 2,700
(D) 2,700	(R) 2,700		

Legend

- A = Adjusted trial balance amount
- C = Closing
- R = Reversing
- D = January Transaction entries

(d) (1)	Jan. 8	Cash.....	8,000	
		Service Revenue.....		8,000
(2)	Jan. 10	Utilities Expense .....	2,700	
		Cash .....		2,700
(3)	Jan. 15	Interest Expense.....	4,000	
		Cash .....		4,000

(f) Interest expense for January is \$500 (\$4,000 – \$3,500).

**<sup>a</sup>Ex. 215**

Transaction and adjustment data for Doty Company for the calendar year end is as follows:

1. December 24 (initial salary entry): \$12,000 of salaries earned between December 1 and December 24 are paid.
2. December 31 (adjusting entry): Salaries earned between December 25 and December 31 are \$3,000. These will be paid in the January 8 payroll.
3. January 8 (subsequent salary entry): Total salary payroll amounting to \$8,000 was paid.

**Instructions**

Prepare two sets of journal entries as specified below. The first set of journal entries should assume that the company does not use reversing entries, and the second set should assume that reversing entries are utilized by the company.

**Assume no reversing entries**

**Assume reversing entries**

(a) Initial Salary Entry

Dec. 24

(b) Adjusting Entry

Dec. 31

(c) Closing Entry

Dec. 31

(d) Reversing Entry

Jan. 1

(e) Subsequent Salary Entry

Jan. 8

Ans: N/A, LO: 7, Bloom: AN, Difficulty: Medium, Min: 20, AACSB: Analytic, AICPA BB: Legal/Regulatory, AICPA FN: Measurement, AICPA PC: Problem Solving, IMA: FSA

**4 - 80 Test Bank for Accounting Principles, Eleventh Edition**

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**<sup>a</sup>Solution 215** (20 min.)

**Assume no reversing entries**

**Assume reversing entries**

(a) Initial Salary Entry

Dec. 24

Salaries and Wages Expense	12,000	Salaries and Wages Expense	12,000
Cash	12,000	Cash	12,000

(b) Adjusting Entry

Dec. 31

Salaries and Wages Expense	3,000	Salaries and Wages Expense	3,000
Salaries and Wages Payable	3,000	Salaries and Wages Payable	3,000

(c) Closing Entry

Dec. 31

Income Summary	15,000	Income Summary	15,000
Salaries and Wages Expense	15,000	Salaries and Wages Expense	15,000

(d) Reversing Entry

Jan. 1

None		Salaries and Wages Payable	3,000
		Salaries and Wages Expense	3,000

(e) Subsequent Salary Entry

Jan. 8

Salaries and Wages Payable	3,000	Salaries and Wages Expense	8,000
Salaries and Wages Expense	5,000	Cash	8,000
Cash	8,000		



## COMPLETION STATEMENTS

216. The first step in preparing a worksheet is to prepare a \_\_\_\_\_ from the general ledger accounts.

Ans: N/A, LO: 1, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Industry/Sector Perspective, AICPA FN: Measurement, AICPA PC: Problem Solving, IMA: FSA

217. The account balances appearing in the adjusted trial balance columns are extended to the \_\_\_\_\_ columns and the \_\_\_\_\_ columns.

Ans: N/A, LO: 1, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Industry/Sector Perspective, AICPA FN: Measurement, AICPA PC: Problem Solving, IMA: FSA

218. The process of transferring net income (or loss) for the period to Owner's Capital is accomplished by making \_\_\_\_\_ entries.

Ans: N/A, LO: 2, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Industry/Sector Perspective, AICPA FN: Measurement, AICPA PC: Problem Solving, IMA: FSA

219. At the end of an accounting period, all revenue and expense accounts are closed to a temporary account called \_\_\_\_\_.

Ans: N/A, LO: 2, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory, AICPA FN: Measurement, AICPA PC: Problem Solving, IMA: FSA

220. The Owner's Drawings account is closed to the \_\_\_\_\_ account at the end of the accounting period.

Ans: N/A, LO: 2, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory, AICPA FN: Measurement, AICPA PC: Problem Solving, IMA: FSA

221. After all closing entries have been journalized and posted, the final step in the accounting cycle is to prepare a \_\_\_\_\_ trial balance.

Ans: N/A, LO: 3, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory, AICPA FN: Measurement, AICPA PC: Problem Solving, IMA: FSA

222. The preparation of a \_\_\_\_\_ and \_\_\_\_\_ entries are two optional steps in the accounting cycle.

Ans: N/A, LO: 4, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Industry/Sector Perspective, AICPA FN: Measurement, AICPA PC: Problem Solving, IMA: FSA

223. Two permanent accounts that are part of the stockholders' equity in a corporation are \_\_\_\_\_ and \_\_\_\_\_.

Ans: N/A, LO: 6, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory, AICPA FN: Reporting, AICPA PC: Problem Solving, IMA: Reporting

224. The four major classifications of assets in a classified balance sheet are: \_\_\_\_\_, \_\_\_\_\_, \_\_\_\_\_ and \_\_\_\_\_.

Ans: N/A, LO: 6, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory, AICPA FN: Reporting, AICPA PC: Problem Solving, IMA: Reporting

225. The \_\_\_\_\_ of a company is the average time that it takes to purchase inventory, sell it on account, and then collect cash from customers.

Ans: N/A, LO: 6, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Industry/Sector Perspective, AICPA FN: Measurement, AICPA PC: Problem Solving, IMA: Business Economics

226. Assets that do not have a physical substance yet often are very valuable are called \_\_\_\_\_ assets.

Ans: N/A, LO: 6, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory, AICPA FN: Reporting, AICPA PC: Problem Solving, IMA: Reporting

## 4 - 82 Test Bank for Accounting Principles, Eleventh Edition

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227. Liabilities are generally classified as either \_\_\_\_\_ or \_\_\_\_\_ on a classified balance sheet.

Ans: N/A, LO: 6, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory, AICPA FN: Reporting, AICPA PC: Problem Solving, IMA: Reporting

### Answers to Completion Statements

- |                                      |   |
|--------------------------------------|---|
| 216. trial balance                   | 223. Common Stock, Retained Earnings  |
| 217. income statement, balance sheet | 224. Current Assets; Long-Term Investments; Property, Plant, and Equipment; Intangible Assets |
| 218. closing                         | 225. operating cycle  |
| 219. Income Summary                  | 226. intangible   |
| 220. Owner's Capital                 | 227. current, long-term   |
| 221. post-closing                    |   |
| 222. worksheet, reversing            |   |

### MATCHING

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

- |                       |                          |
|-----------------------|--------------------------|
| A. Worksheet          | F. Common Stock          |
| B. Permanent accounts | G. Current assets        |
| C. Closing entries    | H. Operating cycle       |
| D. Income Summary     | I. Long-term liabilities |
| E. Reversing entry    | J. Correcting entries    |

- \_\_\_ 1. Obligations that a company expects to pay after one year.
- \_\_\_ 2. A part of owners' equity in a corporation.
- \_\_\_ 3. An optional tool which facilitates the preparation of financial statements.
- \_\_\_ 4. A temporary account used in the closing process.
- \_\_\_ 5. Balance sheet accounts whose balances are carried forward to the next period.
- \_\_\_ 6. The average time that it takes to go from cash to cash in producing revenues.
- \_\_\_ 7. Entries to correct errors made in recording transactions.
- \_\_\_ 8. The exact opposite of an adjusting entry made in a previous period.
- \_\_\_ 9. Entries at the end of an accounting period to transfer the balances of temporary accounts to a permanent owner's equity account.
- \_\_\_ 10. Assets that a company expects to pay or convert to cash or use up within one year.

Ans: N/A, LO: 1-7, Bloom: K, Difficulty: Easy, Min: 5, AACSB: None, AICPA BB: Industry/Sector Perspective, AICPA FN: Measurement, AICPA PC: Problem Solving, IMA: Reporting

**Answers to Matching**

- |      |       |
|------|-------|
| 1. I | 6. H  |
| 2. F | 7. J  |
| 3. A | 8. E  |
| 4. D | 9. C  |
| 5. B | 10. G |

**SHORT-ANSWER ESSAY QUESTIONS****S-A E 229**

A worksheet is an optional working tool used by accountants to facilitate the preparation of financial statements. Consider the steps followed in preparing a worksheet. How does the use of a worksheet assist the accountant. Could financial statements be prepared without a worksheet? Evaluate how the process would differ. Consider factors such as timeliness, accuracy, and efficiency in your evaluation.

Ans: N/A, LO: 1, Bloom: K, Difficulty: Easy, Min: 5, AACSB: None, AICPA BB: Industry/Sector Perspective, AICPA FN: Measurement, AICPA PC: Communication, IMA: FSA

**Solution 229**

The worksheet organizes the accountant's work in preparing the income statement and the balance sheet. The worksheet contains the general ledger trial balance, the adjusting entries, and an adjusted trial balance (if 10-column). The columns for these trial balances and entries allow the accountant to prove the equality of the debits and credits at each step of the process. From the adjusted trial balance the balance sheet and income statement amounts are obtained and entered in the appropriate columns.

Preparing financial statements without the use of a worksheet would be less organized and probably more prone to errors. And, if errors are made, they will probably be less easy to detect and locate, and, therefore, less efficient and more time consuming.

**S-A E 230**

Journalizing and posting closing entries is a required step in the accounting cycle. Discuss why it is necessary to close the books at the end of an accounting period. If closing entries were not made, how would the preparation of financial statements be affected?

Ans: N/A, LO: 2, Bloom: K, Difficulty: Easy, Min: 5, AACSB: None, AICPA BB: Legal/Regulatory, AICPA FN: Measurement, AICPA PC: Communication, IMA: Reporting

**Solution 230**

Closing entries are prepared to close the income statement accounts (the temporary accounts) of the current year in order to start the next year. Income statement (temporary) accounts are cumulative in nature but only for a year. The closing entries are what separate the accounting periods. The next year's accumulation of income statement data can begin once the accounts are cleared and the balances transferred through the closing entries to owner's equity.

**S-A E 231**

Give the definition of current assets and current liabilities and provide two examples of each.

Ans: N/A, LO: 6, Bloom: K, Difficulty: Easy, Min: 5, AACSB: None, AICPA BB: Legal/Regulatory, AICPA FN: Reporting, AICPA PC: Communication, IMA: Reporting

**Solution 231**

Current assets are assets that a company expects to convert to cash or use up within one year or its operating cycle, whichever is longer. Examples of current assets include short-term investments, accounts receivable, and inventory. Current liabilities are obligations that the company is to pay within the current year. Examples of current liabilities are accounts payable, wages payable, and taxes payable.

**S-A E 232**

(a) What is the term used to describe the owner's equity section of a corporation? (b) Identify the two owners' equity accounts in a corporation and indicate the purpose of each.

Ans: N/A, LO: 6, Bloom: K, Difficulty: Easy, Min: 5, AACSB: None, AICPA BB: Legal/Regulatory, AICPA FN: Reporting, AICPA PC: Communication, IMA: Reporting

**Solution 232**

(a) The owner's equity section for a corporation is called **stockholders' equity**.  
(b) The two accounts and the purpose of each are: (1) **Common stock** is used to record investments of assets in the business by the owners (stockholders). (2) **Retained earnings** is used to record net income retained in the business.

**S-A E 233**

Distinguish between a reversing entry and an adjusting entry. Are reversing entries required?

Ans: N/A, LO: 7, Bloom: K, Difficulty: Easy, Min: 5, AACSB: None, AICPA BB: Legal/Regulatory, AICPA FN: Reporting, AICPA PC: Communication, IMA: Reporting

**Solution 233**

A reversing entry is the exact opposite of an adjusting entry and is made at the beginning of the new accounting period. Reversing entries are an optional step in the accounting cycle.

**S-A E 234 (Ethics)**

Under Protection provides underground storage facilities for companies desiring off-site storage of sensitive documents, computer records, and other items. They have developed a sophisticated surveillance and security system which they initially used in their own facilities, and have recently started to market elsewhere as well.

The underground storage facilities are made from natural caves in some instances (reinforced and modified as appropriate) and from excavations of natural rock formations in others. The land was purchased over ten years ago for a total of \$2.5 million. The modifications have cost approximately \$15 million more. The company has never depreciated its storage facilities because the market value of the property has continued to rise. Presently, the market price is between \$30 and \$40 million.

Betsy Brantley, a new accounting manager, questioned this depreciation policy. Will Gray, the controller, has told her that she needn't worry about it. For one thing, he says, this is really a special form of Land account, which should not be depreciated at all. For another, this is a privately held company, and so they don't need to worry about misleading investors. All the owners know about and approve the depreciation policy.

**Required:**

What are the ethical issues in this situation?

Ans: N/A, LO: 5, Bloom: K, Difficulty: Easy, Min: 5, AACSB: Ethics, AICPA BB: Industry/Sector Perspective, AICPA FN: Measurement, AICPA PC: Communication, IMA: Business Economics

**Solution 234**

The ethical issue is one of integrity. Even though the storage facilities are underground, that does not mean that they can be accounted for simply as land. The structural improvements and surveillance mechanisms will not last forever, and therefore their cost should be allocated over the periods that are benefited. Net income is being overstated because the depreciation expense, at zero, is being understated.

A second issue is the harm that may be incurred by outside parties because of the misrepresentation in the financial statements. Even though the owners know about the (lack of) depreciation, they may still use their financial statements to obtain loans. Private investors and bankers should be able to rely on the financial statements.

A third issue is that of the integrity of the accountants themselves. If they are being asked to ignore a basic principle of accounting so openly now, they should certainly ask themselves what lies ahead.

**S-A E 235 (Communication)**

You have recently started to work for Storry Malcom, manufacturers of cemetery markers and monuments. During your first month at work, you inadvertently recorded as revenue, about \$4,000 of prepayments from Budger Company. The financial statements had been released within the company when you discovered your error. The month-end closing had not been completed, however, and you were able to correct the accounts without incident.

**Required:**

Prepare a short note to accompany the re-released financial statements explaining the mistake.

Ans: N/A, LO: 5, Bloom: K, Difficulty: Easy, Min: 5, AACSB: Communications, AICPA BB: Legal/Regulatory, AICPA FN: Reporting, AICPA PC: Communication, IMA: Reporting

**Solution 235**

M E M O

TO: Department Managers

FROM: Lisa Cross, Accounting

RE: Month-End Reports

\*\*\*\*ATTACHED FINANCIAL STATEMENTS REPLACE THOSE ISSUED JULY 5\*\*\*\*

\*\*\*\*\*DESTROY ALL EARLIER COPIES OF JUNE 30 FINANCIAL STATEMENTS\*\*\*\*\*

An error was made in the recording of Budger Company's prepayment. The entire \$4,000 was recorded as revenue. Since Budger's order had not been completed or shipped, it should have been recorded as unearned revenue, which is a liability. Note that net income is reduced to only \$xxxxx as a result of this change.

If you have sent any of your summary reports to corporate headquarters, please contact the Accounting Department immediately for correction codes.

I am sincerely sorry for any inconvenience or delays caused by this error.