Financial Accounting 1

FORMAT

ACCT_130

فورمات أكاونت 1

CH 3 + 4

ضياء الدين صبح 💚

FORMAT

CHAPTER 3

Adjusting the Accounts
تعديل الحسابات

Format ACCT130_CH3 (Diyaa Suboh)

Q1. Circle the correct answer

1. **Monthly and quarterly time periods are called**
   a. calendar periods.
   b. fiscal periods.
   c. <u>interim periods.</u>
   d. quarterly periods.
2. **An accounting time period that is one year in length, but does not begin on January 1, is referred to as**
   a. <u>a fiscal year.</u>
   b. an interim period.
   c. the time period assumption.
   d. a reporting period.
3. **Adjustments would not be necessary if financial statements were prepared to reflect net income from**
   a. monthly operations.
   b. fiscal year operations.
   c. interim operations.
   d. <u>lifetime operations.</u>
4. **The time period assumption is also referred to as the**
   a. calendar assumption.
   b. cyclicity assumption.
   c. <u>periodicity assumption.</u>
   d. fiscal assumption.
5. **Which of the following is not a common time period chosen by businesses as their accounting period?**
   a. <u>Daily</u>
   b. Monthly
   c. Quarterly
   d. Annually
6. **The fiscal year of a business is usually determined by**
   a. the IRS. b. a lottery. **<u>c. the business.</u>** d. the SEC.
7. **The revenue recognition principle dictates that revenue should be recognized in the accounting records**
   a. when cash is received.
   b. <u>when it is earned.</u>
   c. at the end of the month.
   d. in the period that income taxes are paid.
8. **In a service-type business, revenue is considered earned**
   a. at the end of the month. b. at the end of the year.
   <u>c. when the service is performed.</u> d. when cash is received.
9. **A company spends $10 million dollars for an office building. Over what period should the cost be written off?**
   a. When the $10 million is expended in cash b. All in the first year
   <u>c. Over the useful life of the building</u> d. After $10 million in revenue is earned

10. **Expenses sometimes make their contribution to revenue in a different period than when the expense is paid. When wages are incurred in one period and paid in the next period, this often leads to which account appearing on the balance sheet at the end of the time period?**
    a. Due from Employees b. Due to Employer
    c. Wages Payable d. Wages Expense
11. **Adjusting entries are required**
    a. because some costs expire with the passage of time and have not yet been journalized.
    b. when the company's profits are below the budget.
    c. when expenses are recorded in the period in which they are incurred.
    d. when revenues are recorded in the period in which they are earned.
12. **An adjusting entry**
    a. affects two balance sheet accounts.
    b. affects two income statement accounts.
    c. affects a balance sheet account and an income statement account.
    d. is always a compound entry.
13. **Expenses incurred but not yet paid or recorded are called**
    a. prepaid expenses. **b. accrued expenses.**
    c. interim expenses. d. unearned expenses.
14. **Adjusting entries can be classified as**
    a. postponements and advances. **b. accruals and prepayments.**
    c. prepayments and postponements. d. accruals and advances.
15. **Accrued revenues are**
    a. received and recorded as liabilities before they are earned.
    b. earned and recorded as liabilities before they are received.
    c. earned but not yet received or recorded.
    d. earned and already received and recorded.
16. **Prepaid expenses are**
    a. paid and recorded in an asset account before they are used or consumed.
    b. paid and recorded in an asset account after they are used or consumed.
    c. incurred but not yet paid or recorded.
    d. incurred and already paid or recorded.
17. **Accrued expenses are**
    a. paid and recorded in an asset account before they are used or consumed.
    b. paid and recorded in an asset account after they are used or consumed.
    c. incurred but not yet paid or recorded.
    d. incurred and already paid or recorded.
18. **Unearned revenues are**
    a. received and recorded as liabilities before they are earned.
    b. earned and recorded as liabilities before they are received.
    c. earned but not yet received or recorded.
    d. earned and already received and recorded
19. **At December 31, 2008, before any year-end adjustments, Karr Company's Insurance Expense account had a balance of $1,450 and its Prepaid Insurance account had a balance of $3,800. It was determined that $3,000 of the Prepaid Insurance had expired. The adjusted balance for Insurance Expense for the year would be**
    a. $3,000. b. $1,450. **c. $4,450.** d. $2,250.

20. **Quirk Company purchased office supplies costing $6,000 and debited Office Supplies for the full amount. At the end of the accounting period, a physical count of office supplies revealed $2,400 still on hand. The appropriate adjusting journal entry to be made at the end of the period would be**
    a. Debit Office Supplies Expense, $2,400; Credit Office Supplies, $2,400.
    b. Debit Office Supplies, $3,600; Credit Office Supplies Expense, $3,600.
    c. <u>Debit Office Supplies Expense, $3,600; Credit Office Supplies, $3,600.</u>
    d. Debit Office Supplies, $2,400; Credit Office Supplies Expense, $2,400.
21. **If business pays rent in advance and debits a Prepaid Rent account, the company receiving the rent payment will credit**
    a. cash. b. prepaid rent.
    <u>c. unearned rent revenue.</u> d. accrued rent revenue.
22. **Unearned revenue is classified as**
    a. an asset account. b. a revenue account. c. a contra-revenue account. **<u>d. a liability.</u>**
23. **On July 1, Dexter Shoe Store paid $8,000 to Ace Realty for 4 months rent beginning July 1. Prepaid Rent was debited for the full amount. If financial statements are prepared on July 31, the adjusting entry to be made by Dexter Shoe Store is**
    a. Debit Rent Expense, $8,000; Credit Prepaid Rent, $2,000.
    b. Debit Prepaid Rent, $2,000; Credit Rent Expense, $2,000.
    c. <u>Debit Rent Expense, $2,000; Credit Prepaid Rent, $2,000.</u>
    d. Debit Rent Expense, $8,000; Credit Prepaid Rent, $8,000.
24. **At March 1, 2008, Candy Inc. had supplies on hand of $500. During the month, Candy purchased supplies of $1,200 and used supplies of $1,500. The March 31 adjusting journal entry should include a**
    a. debit to the supplies account for $1,500.
    b. credit to the supplies account for $500.
    c. debit to the supplies account for $1,200.
    d. <u>credit to the supplies account for $1,500.</u>
25. **If an adjusting entry is not made for an accrued revenue,**
    a. assets will be overstated. b. expenses will be understated.
    <u>c. owner's equity will be understated.</u> d. revenues will be overstated.
26. **The accounts of a business before an adjusting entry is made to record an accrued revenue reflect an**
    a. understated liability and an overstated owner's capital.
    b. overstated asset and an understated revenue.
    c. understated expense and an overstated revenue.
    d. <u>understated asset and an understated revenue.</u>
27. **The adjusted trial balance is prepared**
    a. after financial statements are prepared.
    b. before the trial balance.
    c. to prove the equality of total assets and total liabilities.
    d. <u>after adjusting entries have been journalized and posted</u>
28. **If prepaid expenses are initially recorded in expense accounts and have not all been used at the end of the accounting period, then failure to make an adjusting entry will cause**
    <u>a. assets to be understated.</u> b. assets to be overstated.
    c. expenses to be understated. d. contra-expenses to be overstated.

29. Al is a barber who does his own accounting for his shop. When he buys supplies he routinely debits Supplies Expense. Al purchased $1,500 of supplies in January and his inventory at the end of January shows $400 of supplies remaining. What adjusting entry should Al make on January 31?

a. Supplies Expense... 400
Supplies.. 400

b. Supplies Expense... 1,500
Cash 1,500

c. Supplies.. 400
Supplies Expense.. 400

d. Supplies Expense... 1,100
Supplies.. 1,100

30. If unearned revenues are initially recorded in revenue accounts and have not all been earned at the end of the accounting period, then failure to make an adjusting entry will cause

a. liabilities to be overstated.
b. revenues to be understated.
c. revenues to be overstated.
d. accounts receivable to be overstated.

31. Which of the following statements concerning accrual-basis accounting is incorrect?

a. Accrual-basis accounting follows the revenue recognition principle.
b. Accrual-basis accounting is the method required by generally accepted accounting principles.
c. Accrual-basis accounting recognizes expenses when they are paid.
d. Accrual-basis accounting follows the matching principle.

32. The revenue recognition principle dictates that revenue be recognized in the accounting period

a. before it is earned.
b. after it is earned.
c. in which it is earned.
d. in which it is collected.

33. An expense is recorded under the cash basis only when

a. services are performed.
b. it is earned.
c. cash is paid.
d. it is incurred.

34. For prepaid expense adjusting entries

a. an expense—liability account relationship exists.
b. prior to adjustment, expenses are overstated and assets are understated.
c. the adjusting entry results in a debit to an expense account and a credit to an asset account.
d. none of these.

35. Expenses paid and recorded as assets before they are used are called

a. accrued expenses.
b. interim expenses.
c. prepaid expenses.
d. unearned expenses.

36. Demaet Cruise Lines purchased a five-year insurance policy for its ships on April 1, 2008 for $100,000. Assuming that April 1 is the effective date of the policy, the adjusting entry on December 31, 2008 is

a. Prepaid Insurance 15,000
Insurance Expense 15,000

b. Insurance Expense.. 15,000
Prepaid Insurance.. 15,000

c. Insurance Expense.. 20,000
Prepaid Insurance.. 20,000

d. Insurance Expense.. 5,000
Prepaid Insurance.. 5,000

37. If the adjusting entry for depreciation is not made,

a. assets will be understated.
b. owner's equity will be understated.
c. net income will be understated.
d. expenses will be understated.

38. Cathy Cline, an employee of Welker Company, will not receive her paycheck until April 2. Based on services performed from March 15 to March 30, her salary was $900. The adjusting entry for Welker Company on March 31 is

a. Salaries Expense 900
Salaries Payable 900

b. No entry is required.

c. Salaries Expense 900
Cash.. 900

d. Salaries Payable 900
Cash.. 900

39. Which of the following statements related to the adjusted trial balance is incorrect?

a. It shows the balances of all accounts at the end of the accounting period.

b. <u>It is prepared before adjusting entries have been made.</u>

c. It proves the equality of the total debit balances and the total credit balances in the ledger.

d. Financial statements can be prepared directly from the adjusted trial balance.

40. Financial statements are prepared directly from the

a. general journal.
b. ledger.
c. trial balance.
<u>d. adjusted trial balance.</u>

Q2: Indicate whether each of the following statements is true or false

True **1.** Many business transactions affect more than one time period.

False **2.** A company's calendar year and fiscal year are always the same.

False **3.** Accounting time periods that are one year in length are referred to as interim periods.

False **4.** Income will always be greater under the cash basis of accounting than under the accrual basis of accounting.

True **5.** The cash basis of accounting is not in accordance with generally accepted accounting principles.

True **6.** Expense recognition is tied to revenue recognition.

False **7.** The revenue recognition principle dictates that revenue be recognized in the accounting period in which cash is received.

False **8.** Adjusting entries are not necessary if the trial balance debit and credit columns balances are equal.

False **9.** An adjusting entry always involves two balance sheet account

False **10.** Revenue received before it is earned and expenses paid before being used or consumed are both initially recorded as liabilities.

False **11.** Accrued revenues are revenues which have been received but not yet earned.

False **12.** Accumulated Depreciation is a liability account and has a credit normal account balance.

True **13.** Asset prepayments become expenses when they expire.

False **14.** If prepaid costs are initially recorded as an asset, no adjusting entries will be required in the future.

False **15.** Accrued revenues are revenues that have been earned and received before financial statements have been prepared.

True **16.** The adjusting entry at the end of the period to record an expired cost may be different depending on whether the cost was initially recorded as an asset or an expense.

True **17.** The matching principle requires that expenses be matched with revenues.

True **18.** Every adjusting entry affects one balance sheet account and one income statement account.

False **19.** Accrued revenues are amounts recorded and received but not yet earned.

False ___ **20.** An adjusted trial balance should be prepared before the adjusting entries are made.

Q3: State whether each situation is a prepaid expense (PE), unearned revenue (UR), accrued revenue (AR) or an accrued expense (AE).

1. Unrecorded interest on savings bonds is $245.
2. Property taxes that have been incurred but that have not yet been paid or recorded amount to $300.
3. Legal fees of $1,000 were collected in advance. By year end 60 percent were still unearned.
4. Prepaid insurance had a $500 balance prior to adjustment. By year end, 40 percent was still unexpired.

Solution Q3: 1. AR 2. AE 3. UR 4. PE

Q4: Prepare adjusting entries for the following transactions. Omit explanations.

1. Depreciation on equipment is $800 for the accounting period.
2. There was no beginning balance of supplies and purchased $500 of office supplies during the period. At the end of the period $80 of supplies were on hand.
3. Prepaid rent had a $1,000 normal balance prior to adjustment. By year end $600 was unexpired.

Solution Q4:

1. Depreciation Expense.. 800
   Accumulated Depreciation—Equipment................................. 800
2. Supplies Expense 420
   Supplies .... 420 ($500 – $80)
3. Rent Expense.. 400
   Prepaid Rent 400

Q5: Identify the impact on the balance sheet if the following information is not used to adjust the accounts.

1. Supplies consumed totalled $3,000.
2. Interest accrues on notes payable at the rate of $200 per month.
3. Insurance of $450 expired during the month.
4. Plant and equipment are depreciated at the rate of $1,200 per month.

Solution Q5:

1. Assets overstated and Owner's Equity overstated by $3,000.
2. Liabilities understated and Owner's Equity overstated by $200.
3. Assets overstated and Owner's Equity overstated by $450.
4. Assets overstated and Owner's Equity overstated by $1,200.

Q6: For each of the following oversights, state whether total assets will be understated (U), overstated (O), or no affect (NA).

______ 1. Failure to record revenue earned but not yet received.
______ 2. Failure to record expired prepaid rent.
______ 3. Failure to record accrued interest on the bank savings account.
______ 4. Failure to record depreciation.
______ 5. Failure to record accrued wages.
______ 6. Failure to recognize the earned portion of unearned revenues.

Solution Q6: **1. U 2. O 3. U 4. O 5. NA 6. NA**

Q7: Indicate (a) the type of adjustment (prepaid expense, unearned revenue, accrued revenue, or accrued expense), and (b) the accounts before adjustment (overstated or understated) for each of the following:

1. Supplies of $200 have been used.
2. Salaries of $600 are unpaid.
3. Rent received in advance totaling $300 has been earned.
4. Services provided but not recorded total $500.

Solution Q7:

	(a) Type of Adjustment	(b) Accounts before Adjustment	
1.	Prepaid Expense	Assets Overstated	Expenses Understated
2.	Accrued Expense	Expenses Understated	Liabilities Understated
3.	Unearned Revenue	Liabilities Overstated	Revenues Understated
4.	Accrued Revenue	Assets Understated	Revenues Understated

Q8: Match the statements below with the appropriate terms by entering the appropriate letter code in the spaces provided.

TERMS:

- **A.** Prepaid Expenses
- **B.** Unearned Revenues
- **C.** Accrued Revenues
- **D.** Accrued Expenses

STATEMENTS:

_____ 1. A revenue not yet earned; collected in advance.
_____ 2. Office supplies on hand that will be used in the next period.
_____ 3. Interest revenue collected; not yet earned.
_____ 4. Rent not yet collected; already earned.
_____ 5. An expense incurred; not yet paid or recorded.
_____ 6. A revenue earned; not yet collected or recorded.
_____ 7. An expense not yet incurred; paid in advance.
_____ 8. Interest expense incurred; not yet paid.

Solution Q8: **1. B 2. A 3. B 4. C 5. D 6. C 7. A 8. D**

Q9: On July 1, 2008, Sheeley Company pays $8,000 to its insurance company for a 2-year insurance policy.

Instructions **Prepare the necessary journal entries for Sheeley on July 1 and December 31.**

Solution Q9:

July 1 Prepaid Insurance... 8,000
Cash... 8,000
Dec. 31 Insurance Expense... 2,000
Prepaid Insurance ($8,000 × 6/24) 2,000

Q10: One part of eight adjusting entries is given below.
Instructions
Indicate the account title for the other part of each entry.

1. Unearned Revenue is debited.
2. Prepaid Rent is credited.
3. Accounts Receivable is debited.
4. Depreciation Expense is debited.
5. Utilities Expense is debited.
6. Interest Payable is credited.
7. Service Revenue is credited (give two possible debit accounts).
8. Interest Receivable is debited.

Solution Q10:

1. Service Revenue
2. Rent Expense
3. Service Revenue
4. Accumulated Depreciation
5. Utilities Payable
6. Interest Expense
7. Accounts Receivable or Unearned Revenue
8. Interest Revenue

Q11: Match the items below by entering the appropriate code letter in the space provided.

A. Time period assumption
B. Fiscal year
C. Revenue recognition principle
D. Prepaid expenses
E. Matching principle
F. Accrued revenues
G. Depreciation
H. Accumulated depreciation
I. Accrued expenses
J. Book value

_____ 1. A twelve month accounting period
_____ 2. Expenses paid before they are incurred
_____ 3. Cost less accumulated depreciation
_____ 4. Divides the economic life of a business into artificial time periods
_____ 5. Efforts are related to accomplishments
_____ 6. A contra asset account
_____ 7. Recognition of revenue when it is recorded when earned
_____ 8. Revenues earned but not yet received
_____ 9. Expenses incurred but not yet paid
_____ 10. A cost allocation process

Solution Q11: **1. B 2. D 3. J 4. A 5. E 6. H 7. C 8. F 9. I 10. G**

End OF Format CH3

FORMAT

CHAPTER 4

Completing the Accounting Cycle
استكمال انشاء القيود التعديلية

Format ACCT130_CH4 (Diyaa Suboh)

Q1. Circle the correct answer

1. **The account, Supplies, will appear in the following debit columns of the worksheet.**
   a. Trial balance
   b. Adjusted trial balance
   c. Balance sheet
   d. <u>All of these answer choices are correct</u>
2. **If the total debits exceed total credits in the balance sheet columns of the worksheet, owner's equity**
   a. <u>will increase because net income has occurred.</u>
   b. will decrease because a net loss has occurred.
   c. is in error because a mistake has occurred.
   d. will not be affected.
3. **Closing entries are necessary for**
   a. permanent accounts only.
   b. <u>temporary accounts only.</u>
   c. both permanent and temporary accounts.
   d. permanent or real accounts only.
4. **Each of the following accounts is closed to Income Summary except**
   a. Expenses.
   b. <u>Owner's Drawings.</u>
   c. Revenues.
   d. All of these are closed to Income Summary.
5. **Closing entries are**
   a. an optional step in the accounting cycle.
   b. posted to the ledger accounts from the worksheet.
   c. made to close permanent or real accounts.
   d. <u>journalized in the general journal.</u>
6. **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**
   a. debit to the owner's capital account.
   b. debit to the owner's drawings account.
   c. <u>credit to the owner's capital account.</u>
   d. credit to the owner's drawings account.
7. **Closing entries**
   a. are prepared before the financial statements.
   b. reduce the number of permanent accounts.
   c. <u>cause the revenue and expense accounts to have zero balances.</u>
   d. summarize the activity in every account.
8. **In order to close the owner's drawings account, the**
   a. income summary account should be debited.
   b. income summary account should be credited.
   c. owner's capital account should be credited.
   d. <u>owner's capital account should be debited.</u>

9. In preparing closing entries
- a. each revenue account will be credited.
- **b. <u>each expense account will be credited.</u>**
- c. the owner's capital account will be debited if there is net income for the period.
- d. the owner's drawings account will be debited.

10. The final closing entry to be journalized is typically the entry that closes the
- a. revenue accounts.
- **b. <u>owner's drawings account.</u>**
- c. owner's capital account.
- d. expense accounts.

11. The Income Summary account is an important account that is used
- a. during interim periods.
- b. in preparing adjusting entries.
- **c. <u>annually in preparing closing entries.</u>**
- d. annually in preparing correcting entries.

12. 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	100	
Total expenses		5,700
Net income		**1,300**

The entry to close Income Summary to Owner's, Capital includes
- a. a debit to Revenues for $7,000.
- b. credits to Expenses totalling $5,700.
- c. a credit to Income Summary for $1,300
- **d. <u>a credit to Owner's Capital for $1,300.</u>**

13. A post-closing trial balance is prepared
- **a. <u>after closing entries have been journalized and posted.</u>**
- b. before closing entries have been journalized and posted.
- c. after closing entries have been journalized but before the entries are posted.
- d. before closing entries have been journalized but after the entries are posted.

14. A post-closing trial balance will show
- **a. <u>only permanent account balances.</u>**
- b. only temporary account balances.
- c. zero balances for all accounts.
- d. the amount of net income (or loss) for the period.

15. A post-closing trial balance should be prepared
- a. before closing entries are posted to the ledger accounts.
- **b. <u>after closing entries are posted to the ledger accounts.</u>**
- c. before adjusting entries are posted to the ledger accounts.
- d. only if an error in the accounts is detected.

16. A post-closing trial balance will show
- a. zero balances for all accounts.
- b. zero balances for balance sheet accounts.
- **c. <u>only balance sheet accounts.</u>**
- d. only income statement accounts.

17. Which account listed below would be double ruled in the ledger as part of the closing process?

a. Cash
b. Owner's Capital
c. Owner's Drawings
d. Accumulated Depreciation—Equipment

18. The heading for a post-closing trial balance has a date line that is similar to the one found on

a. a balance sheet.
b. an income statement.
c. an owner's equity statement.
d. the worksheet.

19. The step in the accounting cycle that is performed on a periodic basis (i.e., monthly, quarterly) is

a. analyzing transactions.
b. journalizing and posting adjusting entries.
c. preparing a post-closing trial balance.
d. posting to ledger accounts.

20. Which one of the following is an optional step in the accounting cycle of a business enterprise?

a. Analyze business transactions
b. Prepare a worksheet
c. Prepare a trial balance
d. Post to the ledger accounts

21. After closing entries are posted, the balance in the owner's capital account in the ledger will be equal to

a. the beginning owner's capital reported on the owner's equity statement.
b. the amount of the owner's capital reported on the balance sheet.
c. zero.
d. the net income for the period.

22. The final step in the accounting cycle is to prepare

a. closing entries.
b. financial statements.
c. a post-closing trial balance.
d. adjusting entries.

23. Which of the following steps in the accounting cycle would not generally be performed daily?

a. Journalize transactions
b. Post to ledger accounts
c. Prepare adjusting entries
d. Analyze business transactions

24. Which of the following steps in the accounting cycle may be performed most frequently?

a. Prepare a post-closing trial balance
b. Journalize closing entries
c. Post closing entries
d. Prepare a trial balance

25. The two optional steps in the accounting cycle are preparing

a. a post-closing trial balance and reversing entries.
b. a worksheet and post-closing trial balances.
c. reversing entries and a worksheet.
d. an adjusted trial balance and a post-closing trial balance.

26. The first required step in the accounting cycle is

a. reversing entries.
b. journalizing transactions in the book of original entry.
c. analyzing transactions.
d. posting transactions.

27. Correcting entries

a. always affect at least one balance sheet account and one income statement account.
b. affect income statement accounts only.
c. affect balance sheet accounts only.
d. <u>may involve any combination of accounts in need of correction.</u>

28. If errors occur in the recording process, they

a. should be corrected as adjustments at the end of the period.
b. <u>should be corrected as soon as they are discovered.</u>
c. should be corrected when preparing closing entries.
d. cannot be corrected until the next accounting period.

29. 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

30. 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

31. All of the following are property, plant, and equipment except

<u>a. supplies.</u> b. machinery.
c. land. d. buildings.

32. The first item listed under current liabilities is usually

a. accounts payable. **<u>b. notes payable</u>**. c. salaries and wages payable. d. taxes payable.

33. Equipment is classified in the balance sheet as

a. a current asset. **<u>b. property, plant, and equipment</u>**.
c. an intangible asset. d. a long-term investment.

34. A current asset is

a. the last asset purchased by a business.
b. an asset which is currently being used to produce a product or service.
c. usually found as a separate classification in the income statement.
d. **<u>an asset that a company expects to convert to cash or use up within one year.</u>**

35. An intangible asset

a. **<u>does not have physical substance, yet often is very valuable.</u>**
b. is worthless because it has no physical substance.
c. is converted into a tangible asset during the operating cycle.
d. cannot be classified on the balance sheet because it lacks physical substance.

36. Liabilities are generally classified on a balance sheet as

a. small liabilities and large liabilities.
b. present liabilities and future liabilities.
c. tangible liabilities and intangible liabilities.
d. **<u>current liabilities and long-term liabilities.</u>**

37. Which of the following would not be classified a long-term liability?

a. <u>Current maturities of long-term debt</u>
b. Bonds payable
c. Mortgage payable
d. Lease liabilities

38. Which of the following liabilities are not related to the operating cycle?

a. Salaries and wages payable
b. Accounts payable
c. Utilities payable
d. <u>Bonds payable</u>

39. intangible assets include each of the following except

a. copyrights. b. goodwill. **<u>c. land improvements.</u>** d. patents

40. The operating cycle of a company is the average time that is required to go from cash to

a. sales in producing revenues.
b. <u>cash in producing revenues.</u>
c. inventory in producing revenues.
d. accounts receivable in producing revenues.

41. intangible assets are

a. listed under current assets on the balance sheet.
b. not listed on the balance sheet because they do not have physical substance.
c. <u>long-lived assets that are often very valuable.</u>
d. listed as a long-term investment on the balance sheet.

42. The relationship between current assets and current liabilities is important in evaluating a company's

a. profitability. **<u>b. liquidity.</u>** c. market value. d. accounting cycle.

43. The most important information needed to determine if companies can pay their current obligations is the

a. net income for this year.
b. projected net income for next year.
c. <u>relationship between current assets and current liabilities.</u>
d. relationship between short-term and long-term liabilities.

44. Balance sheet accounts are considered to be

a. temporary owner's equity accounts. **<u>b. permanent accounts.</u>**
c. capital accounts. d. nominal accounts.

45. A reversing entry
  a. reverses entries that were made in error.
  b. <u>is the exact opposite of an adjusting entry made in a previous period.</u>
  c. is made when a business dispose of an asset it previously purchased.
  d. is made when a company sustains a loss in one period and reverses the effect with a profit in the next period.

46. 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
  a. credit Income Summary $17,000, debit Owner's Capital $17,000.
  b. credit Income Summary $17,000, debit Owner's Drawings $17,000.
  c. debit Income Summary $17,000, credit Owner's Drawings $17,000.
  d. <u>debit Income Summary $17,000, credit Owner's Capital $17,000.</u>

47. The post-closing trial balance contains only
  a. income statement accounts.
  b. <u>balance sheet accounts.</u>
  c. balance sheet and income statement accounts.
  d. income statement, balance sheet, and owner's equity statement accounts.

48. Which of the following is an optional step in the accounting cycle?
  a. Adjusting entries
  b. Closing entries
  c. Correcting entries
  d. <u>Reversing entries</u>

49. Correcting entries are made
  a. at the beginning of an accounting period.
  b. at the end of an accounting period.
  c. <u>whenever an error is discovered.</u>
  d. after closing entries.

50. The use of reversing entries
  a. is a required step in the accounting cycle.
  b. changes the amounts reported in the financial statements.
  c. <u>simplifies the recording of subsequent transactions.</u>
  d. is required for all adjusting entries.

Q2: Indicate whether each of the following statements is true or false

<u>False</u> **1.** Closing entries are unnecessary if the business plans to continue operating in the future and issue financial statements each year
<u>False</u> **2.** The owner's drawings account is closed to the Income Summary account in order to properly determine net income (or loss) for the period.
<u>True</u> **3.** After closing entries have been journalized and posted, all temporary accounts in the ledger should have zero balances.
<u>False</u> **4.** Closing revenue and expense accounts to the Income Summary account is an optional bookkeeping procedure.
<u>False</u> **5.** Closing the drawings account to Owner's Capital is not necessary if net income is greater than owner's drawings during the period.
<u>True</u> **6.** Closing entries are journalized after adjusting entries have been journalized.
<u>False</u> **7.** The post-closing trial balance is entered in the first two columns of a worksheet

False____ **8.** A business entity has only one accounting cycle over its economic existence.
True____ **9.** The accounting cycle begins at the start of a new accounting period.
True___ **10.** Correcting entries are made any time an error is discovered even though it may not be at the end of an accounting period.
True___ **11.** In a corporation, Retained Earnings is a part of owners' equity.
False___ **12.** A company's operating cycle and fiscal year are usually the same length of time.
True___ **13.** Cash and supplies are both classified as current assets.
False___ **14.** Long-term investments would appear in the property, plant, and equipment section of the balance sheet.
True___ **15.** A liability is classified as a current liability if the company is to pay it within the forthcoming year.
True___ **16.** Reversing entries are an optional bookkeeping procedure.
True___ **17.** To close net income to owner's capital, Income Summary is debited and Owner's Capital is credited.
False___ **18.** The post-closing trial balance will contain only owner's equity statement accounts and balance sheet accounts.
True___ **19.** Current assets are listed in the order of liquidity.
True___ **20.** Current liabilities are obligations that the company is to pay within the coming year.

Q3: 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.

Solution Q3:

Income Summary	44,000	
Owner's Capital		44,000
Owner's Capital	20,000	
Owner's Drawings		20,000

Q4: 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

Solution Q4: (2) Owner's, Drawings, (5) Depreciation Expense

Q5: 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

Solution Q5: (3) Notes Payable, (5) Cash

Q6: 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.

Solution Q6:

a. Salaries and Wages Expense.. 5,000
Supplies Expense 5,000

b. Supplies 1,000
Equipment 1,000

Q7: 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.

A. Current assets
B. Long-term investments
C. Property, plant, and equipment
D. Intangible assets
E. Current liabilities
F. Long-term liabilities
G. Owner's equity
H. Not on the balance sheet

_____ 1. Accumulated Depreciation
_____ 2. Owner's Capital
_____ 3. Interest Expense
_____ 4. Salaries and Wages Payable
_____ 5. Owner's, Drawings
_____ 6. Inventory
_____ 7. Patents
_____ 8. Prepaid Rent
_____ 9. Mortgage Payable
_____ 10. Land Held for Investment

Solution Q7: **1. C 2. G 3. H 4. E 5. H 6. A 7. D 8. A 9. F 10. B**

Q8: Indicate the worksheet column (income statement Dr., balance sheet Cr., etc.) to which each of the following accounts would be extended.

a. Accounts Receivable
b. Accumulated Depreciation—Equip.
c. Service Revenue
d. Interest Expense
e. Owner's Drawings
f. Unearned Service Revenue

Solution Q8:

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

Q9: 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

Solution Q9:

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

Q10: 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.

Solution Q10:

	Account	Debit	Credit
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

Q11: Match the items below by entering the appropriate code letter in the space provided.

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

Solution Q11:

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

End OF Format CH4

BIRZEIT UNIVERSITY
FACUALTY OF BUSINESS AND ECONOMICS
ACCOUNTING DEPARTMENT

INCTRUCTOR:

FIRST SEM.2022-2023
SECOND EXAM

ACCT 130

Q#3 Matching	Answer
1	C
2	G
3	H
4	E
5	H
6	A
7	D
8	A
9	F
10	B

Q#4 Matching	Answer
1	G
2	E
3	I
4	J
5	B
6	H
7	C
8	F
9	A
10	D

Q#5 Mutable Choice	Answer
1	B
2	C
3	C
4	C
5	C
6	A
7	C
8	C
9	D
10	B
11	D
12	C

Question #1: The ledger accounts given below, with an identification number for each, are used by Dettol Cleaning.

Instructions: Prepare appropriate adjusting entries for the year ended December 31, 2022, by replacing the appropriate identification number(s) in the debit and credit columns provided and the dollar amount in the adjoining column. Item 0 is given as an example.

1. Service Revenue
2. Accounts Receivable
3. Interest Receivable
4. Supplies Expense
5. Insurance Expense
6. Equipment
7. Accumulated Depreciation-Equipment
8. Salaries and Wages Payable
9. Interest Expense
10. Cash
11. Notes Payable
12. Interest Revenue
13. Unearned Service Revenue
14. Salaries and Wages Expense
15. Depreciation Expense-Equipment
16. Interest Payable
17. Prepaid Insurance
18. Supplies

ENTRY NO.	Account(s) Entry Information	Account(s) Debited	Account(s) Credited	Amount $
0	**Interest of $300 is accrued on a note receivable at December 31, 2022.**	**3**	**12**	**300**
1	A customer paid Dettol Cleaning $16,000 on December 1, 2022, for services to be performed in the coming 2 months. The receipt was credited to a liability account. On Dec.31, 2022, half these services were performed	**13**	**1**	**8,000**
2	Dettol has two employees who each earn $110 per day. At December 31, 2022, four days' salaries have been earned but not paid.	**14**	**8**	**880**
3	Dettol purchased equipment costing $28,000 on January 1, 2021. Monthly depreciation is $400.	**15**	**7**	**4,800**
4	Dettol borrowed $8,000 by signing a three- month, 6% interest, note payable on November 1, 2022.	**9**	**16**	**80**
5	Dettol started the year with no supplies on hand. Dettol purchased $4,000 in supplies during the year and has $1,800 on hand at December 31. Supplies were debited to an asset account when purchased	**4**	**18**	**2,200**

Question 2: The adjusted trial balance of Hamouda's laundry

Hamouda's laundry Adjusted Trial Balance December 31,2022		
Cash	$ 1,170	
Laundry supplies	1,930	
Prepaid Insurance	600	
Laundry equipment	20,600	
Accumulated Depreciation, Laundry equipment		$5,400
Accounts Payable		325
Hamouda's, Capital		11,125
Hamouda's, Withdrawals	4,800	
Laundry Service revenue		21,720
Salaries expenses	6,920	
Depreciation expense, laundry equipment	1,200	
Utilities expense	950	
Insurance expense	400	
Totals	**$38,570**	**$38,570**

1. Prepare the necessary closing entries at December 31.
2. What is the balance of Sara's capital account (ending balance), after the bookkeeper posts the closing entries?

Solution:

1.

Dr. Income Summary 9,470
Cr. Salaries expenses 6,920
Cr. Depreciation expense 1,200
Cr. Utilities expense 950
Cr. Insurance expense 400
Dr. Laundry Service revenue 21,720
Cr. Income Summary 21,720
Dr. Income Summary 12,250
Cr. Owners Capital 12,250
Dr. Owners Capital 4,800
Cr. Owners Withdrawals 4,800

**** Credited Owners Capital = Income Summary with Credit– Income Summary with Debit**
= 21,720 – 9,470 **= $ 12,250 (Credit)**

2.

Ending Balance = Owners Capital + Income Summary - Owners Withdrawals
= 11,125 + 12,250 – 4,800 = **$ 18,575**

Q3: 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.

A. Current assets
B. Long-term investments
C. Property, plant, and equipment
D. Intangible assets
E. Current liabilities
F. Long-term liabilities
G. Owner's equity
H. Not on the balance sheet

_____ 1. Accumulated Depreciation
_____ 2. Owner's Capital
_____ 3. Interest Expense
_____ 4. Salaries and Wages Payable
_____ 5. Owner's, Drawings
_____ 6. Inventory
_____ 7. Patents
_____ 8. Prepaid Rent
_____ 9. Mortgage Payable
_____ 10. Land Held for Investment

Solution:

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

Q4: Match the items below by entering the appropriate code letter in the space provided.

A. Accrued expenses
B. Current assets
C. Matching principle
D. Book value
E. Income Summary
F. Accrued revenues
G. Long-term liabilities
H. Time period assumption
I. Closing entries
J. Prepaid expenses

____ 1. Obligations that a company expects to pay after one year.
____ 2. A temporary account used in the closing process.
____ 3. Entries at the end of an accounting period to transfer the balances of temporary accounts to a permanent owner's equity account.
____ 4. Expenses paid before they are incurred
____ 5. Assets that a company expects to pay or convert to cash or use up within one year.
____ 6. Divides the economic life of a business into artificial time periods
____ 7. Efforts are related to accomplishments
____ 8. Revenues earned but not yet received
____ 9. Expenses incurred but not yet paid
____ 10. Cost less accumulated depreciation

Solution:

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

Q5. Circle the correct answer

1. **A reversing entry**
   a. reverses entries that were made in error.
   b. <u>is the exact opposite of an adjusting entry made in a previous period.</u>
   c. is made when a business dispose of an asset it previously purchased.
   d. is made when a company sustains a loss in one period and reverses the effect with a profit in the next period.

2. **Mada Company purchased office supplies costing $6,000 and debited Office Supplies for the full amount. At the end of the accounting period, a physical count of office supplies revealed $2,400 still on hand. The appropriate adjusting journal entry to be made at the end of the period would be**
   a. Debit Office Supplies Expense, $2,400; Credit Office Supplies, $2,400.
   b. Debit Office Supplies, $3,600; Credit Office Supplies Expense, $3,600.
   c. <u>Debit Office Supplies Expense, $3,600; Credit Office Supplies, $3,600.</u>
   d. Debit Office Supplies, $2,400; Credit Office Supplies Expense, $2,400.

3. **The final step in the accounting cycle is to prepare**
   a. closing entries.
   b. financial statements.
   c. <u>a post-closing trial balance.</u>
   d. adjusting entries.

4. **Which of the following steps in the accounting cycle may be performed most frequently?**
   a. Prepare a post-closing trial balance
   b. Journalize closing entries
   c. <u>Post closing entries</u>
   d. Prepare a trial balance

5. **The time period assumption is also referred to as the**
   a. calendar assumption.
   b. cyclicity assumption.
   c. <u>periodicity assumption.</u>
   d. fiscal assumption.

6. **Unearned revenues are**
   a. <u>received and recorded as liabilities before they are earned.</u>
   b. earned and recorded as liabilities before they are received.
   c. earned but not yet received or recorded.
   d. earned and already received and recorded

7. **On July 1, Jawwal Store paid $8,000 to Ace Realty for 4 months rent beginning July 1. Prepaid Rent was debited for the full amount. If financial statements are prepared on July 31, the adjusting entry to be made by Jawwal Store is**
   a. Debit Rent Expense, $8,000; Credit Prepaid Rent, $2,000.
   b. Debit Prepaid Rent, $2,000; Credit Rent Expense, $2,000.
   c. <u>Debit Rent Expense, $2,000; Credit Prepaid Rent, $2,000.</u>
   d. Debit Rent Expense, $8,000; Credit Prepaid Rent, $8,000.

8. The Balance sheet referred to:
   a. An operating system
   b. The Statement of Cash flow
   c. The Statement of Financial position
   d. The Statement of Owners equity

9. THE accounting equation for Paltel Company is as follow:
   Assets = Liabilities + Owner's equity
   $120,000 = $60,000 + 60,000
   If Paltel purchases office equipment on account for $15,000, the accounting equation Will change to: Assets = Liabilities + Owner's equity
   a. $120,000 = $60,000 + 60,000
   b. $135,000 = $60,000 + 75,000
   c. $135,000 = $67,500 + 67,500
   d. $120,000 = $75,000 + 60,000

10. Which is not appear On the Balance Sheet:
   a. Cash
   b. Withdrawals
   c. Account Receivable
   d. Account Payable

11. At March 1, 2008, Cady Inc. had supplies on hand of $500. During the month, Cady purchased supplies of $1,200 and used supplies of $1,500. The March 31 adjusting journal entry should include a
   a. debit to the supplies account for $1,500.
   b. credit to the supplies account for $500.
   c. debit to the supplies account for $1,200.
   d. credit to the supplies account for $1,500.

12. intangible assets include each of the following except
   a. copyrights.
   b. goodwill.
   c. land improvements.
   d. patents

Good Luck