

Chapter 4 Questions

Multiple Choice

1. An Accountant collected \$550 of service fees in advance. She erroneously debited Cash for \$505 and credited Accounts Receivable for \$505. The **correcting** entry is

a.	Cash	45	
	Accounts Receivable.....	505	
	Unearned Service Revenue		550
b.	Cash	550	
	Service Revenue		550
c.	Cash	45	
	Accounts Receivable.....	45	
	Unearned Service Revenue		90
d.	Cash	505	
	Accounts Receivable.....		505

2. **Accumulated Depreciation** is a(n):

- a. expense account.
- b. stockholders' equity account.
- c. liability account.
- d. contra asset account.

3. The **worksheet** is a type of

- a. financial statement.
- b. permanent accounting record.
- c. working paper.
- d. journal.

4. The proper sequence for the **accounting cycle** is

- a. analyze, journalize, post, adjust, prepare statements, close.
- b. post, journalize, analyze, prepare statements, close, adjust.
- c. prepare statements, journalize, post, adjust, close, analyze.
- d. journalize, post, close, prepare statements, adjust, analyze.

5 After all **the closing entries** have been posted, the balance of the income summary will be

- a. a debit if a net income has occurred.
- b. a debit if a net loss has occurred.
- c. a credit if a net loss has occurred.
- d. zero.

6 . **The post-closing trial balance** will

- a. be prepared before closing entries are posted to the ledger.
- b. contain both income statement and balance sheet accounts.
- c. contain only balance sheet accounts.
- d. contain only income statement accounts.

7. 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.
 - expected to be converted to cash or used in the business within a relatively short period of time.
8. The **primary source** used in the preparation of the financial statements is the:
- trial balance.
 - post-closing trial balance.
 - general trial balance.
 - adjusted trial balance.
9. Which of the following accounts is a **temporary** account?
- Common Stock
 - Retained Earnings
 - Cash
 - Dividends

*****Use the following information to answer the questions for 10, 11, and 12*****

Koonce Office Supplies
Balance Sheet
December 31, 2017

Cash	\$	195,000	Accounts payable	\$	210,000
Accounts receivable		150,000	Salaries and wages payable		30,000
Inventory		165,000	Mortgage payable		<u>240,000</u>
Prepaid insurance		90,000	Total liabilities		\$480,000
Stock investments (Short-Term)		255,000			
Land		270,000			
Buildings	\$315,000		Common stock		\$360,000
Less: Accumulated depreciation	<u>(60,000)</u>	255,000	Retained earnings		<u>750,000</u>
Trademarks		<u>210,000</u>	Total stockholders' equity		<u>\$1,110,000</u>
Total assets		<u>\$1,590,000</u>	Total liabilities and stockholders' equity		<u>\$1,590,000</u>

10. What is the total dollar amount of assets to be classified as **current assets**?
- \$855,000
 - \$600,000
 - \$510,000
 - \$435,000
11. What is the total dollar amount of assets to be classified as classified as **property, plant, and equipment**?
- \$990,000
 - \$525,000

- c. \$735,000
- d. \$585,000

12. What is the total dollar amount of assets to be classified as **investments**?

- a. \$525,000
- b. \$0
- c. \$255,000
- d. \$465,000

13. A **post-closing trial balance** will show:

- a. zero balances for all accounts.
- b. zero balances for balance sheet accounts.
- c. only balance sheet accounts.
- d. only income statement accounts.

14. **Trademarks** would appear in which balance sheet section?

- a. Intangible assets
- b. Investments
- c. Property, plant, and equipment
- d. Current assets

15. The following information is from the Income Statement of the M & J's CPA Firm:

Revenues		
Service Revenue		\$200,000
Expenses		
Salaries and wages expense	\$ 120,000	
Rent expense	20,000	
Insurance expense	5,000	
Supplies expense	3,000	
Total expenses		<u>148,000</u>
Net Income		<u>\$52,000</u>

The entry to close the **Income Summary** includes a:

- a. credit to Income Summary for \$52,000.
- b. debit to Income Summary for \$52,000.
- c. debit to Retained Earnings for \$52,000.
- d. credit to Common Stock for \$52,000.

EXERCISES

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

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

- | | | | | | |
|-------|----|---------------------------------|-------|-----|----------------------------|
| _____ | 1. | Accumulated depreciation-equip. | _____ | 6. | Inventory |
| _____ | 2. | Common stock | _____ | 7. | Patents |
| _____ | 3. | Interest expense | _____ | 8. | Prepaid insurance |
| _____ | 4. | Salaries and wages payable | _____ | 9. | Mortgage payable |
| _____ | 5. | Retained earnings | _____ | 10. | Land (held for investment) |

2. These items are taken from the financial statements of Rainey Company at December 31, 2021.

Buildings	\$95,800
Accounts receivable	15,600
Prepaid insurance	4,680
Cash	18,840
Equipment	79,400
Land	61,200
Insurance expense	780
Depreciation expense	7,300
Interest expense	2,600
Common stock	57,000
Retained earnings (January 1, 2019)	40,000
Accumulated depreciation—buildings	45,600
Accounts payable	15,500
Mortgage payable	88,600
Accumulated depreciation—equipment	18,720
Interest payable	3,600
Service revenue	17,180

Instructions

Prepare a classified balance sheet. Assume that \$13,600 of the mortgage payable will be paid in 2022.

Chapter 4 Exercise Solutions (Cont.)

EXERCISE SOLUTION 3

RAINEY COMPANY

Balance Sheet
December 31, 2021

Assets			
Current assets			
Cash		\$18,840	
Accounts receivable		15,600	
Prepaid Insurance		<u>4,680</u>	
Total current assets (Cash + Acc. rec. + Prep. ins.)			\$39,120
Property, plant, and equipment			
Land		61,200	
Buildings.....	\$95,800		
Less: Accumulated depreciation—			
buildings.....	<u>45,600</u>	50,200	
Equipment.....	79,400		
Less: Accumulated depreciation—			
equipment	<u>18,720</u>	<u>60,680</u>	172,080
Total assets			<u>\$211,200</u>
(Tot. cur. assets + Land + Build. – Acc. depr. + Equip. – Acc. depr.)			
Liabilities and Stockholders' Equity			
Current liabilities			
Accounts payable		\$ 15,500	
Current portion of note payable		13,600	
Interest payable		<u>3,600</u>	
Total current liabilities			\$ 32,700
Long-term liabilities			
Mortgage payable.....			<u>75,000</u>
Total liabilities.....			107,700
Stockholders' equity			
Common stock.....		57,000	
Retained earnings			

(\$40,000 + \$6,500*)	<u>46,500</u>	
Total stockholders' equity		<u>103,500</u>
Total liabilities and Stockholders' equity		<u>\$211,200</u>
(Tot. cur. liab. + Mort. pay. + Com. stock + Beg. ret. earn. + Net. inc. *)		
*Net income = \$17,180 – \$780 – \$7,300 – \$2,600 = \$6,500		

Chapter 4 Exercise Solutions (Cont.)

EXERCISE SOLUTION 4

	Date	Debit	Credit
Service Revenue	Dec. 31	34,600	
Rent Revenue	Closing	14,400	
Income Summary			49,000
Income Summary	Dec. 31	34,600	
Salaries and Wages Expense	Closing		18,100
Rent Expense			12,000
Supplies Expense			1,800
Insurance Expense			1,500
Depreciation Expense			1,200
Income Summary	Dec. 31	14,400	
Retained Earnings	Closing		14,400
Retained Earnings	Dec. 31	5,800	
Dividends	Closing		5,800