

Unit 1 Review (Chapters 3 & 4 Only)

This review focuses on Chapters 3 & 4. Please complete the Mini-Exam Review for Chapters 1 & 2 content.

Chapter 2 Journal Entry Practice

Example: Analyze the following transactions for Sky Corp. These relate to the first month of business beginning January 1, 20XX.

1. Invested \$5,000 in exchange for Common Stock

2. Purchased Equipment of \$1,000 on account.

3. Purchased \$250 Supplies.

4. Performed services for customer and received \$5,000 cash

5. Paid salaries of \$1,000 to workers

6. Paid \$200 of amount owed in transaction #2

7. Performed \$2,000 services for customer on account

8. Paid Rent Expense of \$1,500

9. Received \$500 from transaction #7

10. Paid dividends of \$100

Chapter 3

Objective 1: Accrual Basis

1. In accrual basis accounting revenues and expenses are recorded when _____.
2. In cash basis accounting revenues and expenses are recorded when _____.
3. Match the terms to the following definitions: Revenue Recognition Principle, Expense Recognition Principle, Time Period Assumption, Depreciation, Accumulated Depreciation.

#	Term	Definition
1		The process of allocating the cost of an asset to expense over its useful life
2		The principle that companies recognize revenue in the accounting period in which the performance obligation is satisfied.
3		An assumption that accountants can divide the economic life of a business into artificial time periods.
4		The principal that companies recognize expense in the period in which they make efforts (consume assets or incur liabilities) to generate revenues.
5		The account that keeps track of the total depreciation expense taken over the life of the asset.

Why do we do adjusting entries?

Objective 2: Deferrals

1. Define a deferral and provide examples:

Objective 3: Accruals

1. Define an accrual and provide examples:

Summary of Adjusting Entries- what is the impact to financial statements:

Type of Adjustment	Effect on Account before Adjustment	Adjusting Entry
Prepaid expenses		
Unearned revenues		
Accrued revenues		
Accrued expenses		

Objective 4: Adjusted Trial Balance

- The purpose of the trial balance is to _____.
- The order of the accounting process to prepare financial statements is:

1.	5.
2.	6.
3.	7.
4.	

- Practice: Prepare adjusting entries for 12/31:

- An analysis of insurance policies shows that \$200 of coverage has expired.

- The balance in the supplies account shows \$600. Supplies on hand total \$250.

- Depreciation is \$300.

- On November 1, the company agreed to provide 6 months of service for \$2,400. Payment was received upon agreement.

- e. On December 1, the company agreed to perform monthly services for an amount of \$1,000 per month, payable at completion of project.

- f. Two employees are paid weekly, at a rate of \$120 per day. Three days have accrued at year end.

Unadjusted Trial Balance			Adjustment		Adjusted Trial Balance	
Account	Debit	Credit	Debit	Credit	Debit	Credit
Cash	3,000					
Account Receivable	0					
Supplies	600					
Prepaid Insurance	300					
Equipment	6,000					
Accumulated Depreciation		4,200				
Accounts Payable		100				
Salaries Payable		0				
Unearned Revenue		2,200				
Common Stock		12,000				
Retained Earnings		2,100				
Service Revenue		1,300				
Depreciation Expense						
Salaries Expense	12,000					
Insurance Expense						
Supplies Expense						
Total	21,900	21,900				

Chapter 4

Objective 1: Prepare a Worksheet

1. Understand how each account is represented on the worksheet and used for financial statement purposes.

Account	Income Statement or Balance Sheet	Debit or Credit
Revenue		
Salary and Wage Expense		
Supplies		
Note Payable		
Unearned Revenue		
Common Stock		
Prepaid Insurance		
Accumulated Depreciation		

Objective 2: Prepare Closing Entries

2. Define a temporary account and provide examples:
3. Define a permanent account and provide examples:
4. Define Income Summary:
5. Closing entries produce a _____ balance in each temporary account.
6. Prepare closing entries in the following order:

Step	Account(s) debited	Account(s) Credited
1. Close Revenues		
2. Close Expenses		
3. Close Income Summary		
4. Close Dividends		

7. What type of accounts are left on the post-closing trial balance?

PRACTICE

Lion Corp.

Trial Balance
12/31/XX

Account	Debit	Credit
Cash	2,300	
Accounts Receivable	2,400	
Supplies	1,800	
Accounts Payable		1,100
Common Stock		2,500
Retained Earnings		1,700
Dividends	200	
Service Revenue		2,000
Salaries Expense	500	
Supplies Expense	100	
Total	7,300	7,300

Prepare Closing Entries from the trial balance above:

x		

PRACTICE: Posting of Closing Entries

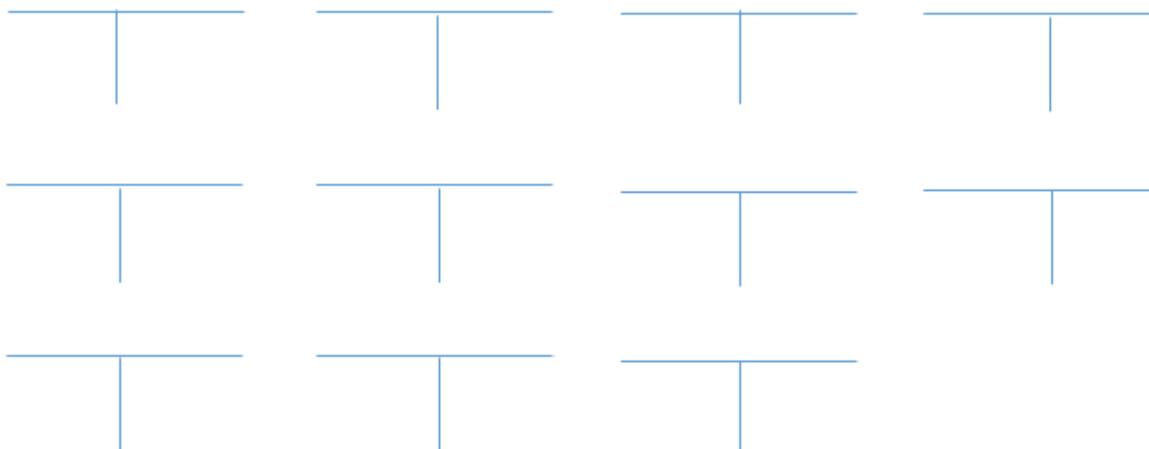


Figure 1 Closing Entry T-Accounts

Objective 3: Understand the Accounting Cycle and Corrections

1)	6)
2)	7)
3)	8)
4)	9)
5)	

To correct an entry: Compare incorrect entry with the correct entry, and fix it.

A payment for supplies of \$400 was debited to Salaries Expense and credited to cash. The correcting Entry would be:

Objective 4: A Classified Balance Sheet

Define and give examples of the following:

- 1) Current Assets:
- 2) Long-Term Investments:
- 3) Property, Plant, Equipment:
- 4) Intangible Assets:
- 5) Current Liabilities:
- 6) Long-term Liabilities:

7) Stockholders' Equity:

PRACTICE Indicate section the following accounts would belong on a classified balance sheet. (CA, LTI, PPE, IA, CL, LTL, SE)

Account Title	Classification	Account Title	Classification
Account Payable		Inventory	
Account Receivable		Land	
Accumulated Depreciation		Mortgage Payable	
Cash		Notes Payable (due in 18 months)	
Common Stock		Notes Receivable (due in 6 months)	
Copyright		Prepaid Insurance	
Debt Investment		Retained Earnings	
Equipment		Stock Investments	
Goodwill		Supplies	
Interest Payable		Unearned Revenue	