

Chapter 4 Questions

Multiple Choice

1. 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.

2. Accumulated Depreciation is a(n):
 - a. expense account.
 - b. stockholders' equity account.
 - c. liability account.
 - d. contra asset account.

3. If a business has received cash in advance of services performed and credits a liability account, the adjusting entry needed after the services are performed will be:
 - a. debit Unearned Service Revenue and credit Cash.
 - b. debit Unearned Service Revenue and credit Service Revenue.
 - c. debit Unearned Service Revenue and credit Prepaid Expense.
 - d. debit Unearned Service Revenue and credit Accounts Receivable.

4. A law firm has billed their clients for services performed. They subsequently received payments from their clients. What entry will the law firm make upon receipt of the payments?
 - a. Debit Unearned Service Revenue and credit Service Revenue
 - b. Debit Cash and credit Accounts Receivable
 - c. Debit Accounts Receivable and credit Service Revenue
 - d. Debit Cash and credit Service Revenue

5. The expense recognition principle matches:
 - a. customers with businesses.
 - b. expenses with revenues.
 - c. assets with liabilities.
 - d. creditors with businesses.

6. Given the data below for a firm in its first year of operation, determine net income under the accrual basis of accounting.

Revenue recognized	\$19,000
Accounts receivable	3,000
Expenses incurred	7,250
Accounts payable (related to expenses)	750
Supplies purchased with cash	1,800

 - a. \$11,750
 - b. \$14,000
 - c. \$9,500
 - d. \$12,200

7. La More Company had the following transactions during 20X1.
- Sales of \$9,000 on account
 - Collected \$4,000 for services to be performed in 20X2
 - Paid \$2,650 cash in salaries
 - Purchased airline tickets for \$500 in December for a trip to take place in 20X2

What is La More's 20X1 net income using cash basis accounting?

- a. \$10,350
- b. \$1,350
- c. \$9,850
- d. \$850

8. The primary source used in the preparation of the financial statements is the:

- a. trial balance.
- b. post-closing trial balance.
- c. general trial balance.
- d. adjusted trial balance.

9. Which of the following accounts is a temporary account?

- a. Common Stock
- b. Retained Earnings
- c. Cash
- d. Dividends

10. On July 1 the Fisher Shoe Store paid \$24,000 to Acme Realty for 6 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 the Fisher Shoe Store is:

- a. debit Rent Expense, \$24,000; credit Prepaid Rent, \$4,000.
- b. debit Prepaid Rent, \$4,000; credit Rent Expense, \$4,000.
- c. debit Rent Expense, \$4,000; credit Prepaid Rent, \$4,000.
- d. debit Rent Expense, \$24,000; credit Prepaid Rent, \$20,000.

11. The Harris Company purchased equipment for \$15,000 on December 1. It is estimated that annual depreciation on the computer will be \$3,000. If financial statements are to be prepared on December 31, the company should make the following adjusting entry:

- a. debit Depreciation Expense, \$3,000; credit Accumulated Depreciation, \$3,000.
- b. debit Depreciation Expense, \$250; credit Accumulated Depreciation, \$250.
- c. debit Depreciation Expense, \$12,000; credit Accumulated Depreciation, \$12,000.
- d. debit Equipment, \$15,000; credit Accumulated Depreciation, \$15,000.

12. If a company fails to adjust an Unearned Rent Revenue account for rent that has been recognized, what effect will this have on that month's financial statements?

- a. Assets will be understated and revenues will be understated.
- b. Liabilities will be understated and revenues will be understated.
- c. Liabilities will be overstated and revenues will be understated.
- d. Assets will be overstated and revenues will be understated.

13. 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.
14. Adjusting entries are made to ensure that:
- expense are recognized in the period in which they are incurred.
 - revenues are recorded in the period in which the performance obligation is satisfied.
 - balance sheet and income statement accounts have correct balances at the end of an accounting period.
 - All of these answer choices are correct.
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:

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

EXERCISES

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

2. Prepare adjusting entries on December 31 for the following transactions. Omit explanations.
(Lines provided below and on the next page)

- Depreciation on equipment is \$1,340 for the accounting period.
- Interest owed on a loan but not paid or recorded is \$275.
- There was no beginning balance of supplies and \$550 of office supplies were purchased during the period. At the end of the period \$100 of supplies were on hand.
- Prepaid rent had a \$1,000 normal balance prior to adjustment. By year end \$700 had expired.
- Accrued salaries at the end of the period amounted to \$900.

<i>Example: Bought supplies for \$500 on Jan. 1.</i>	Date	Debit	Credit
<i>Supplies</i>	Jan. 1	500	
Cash			500

Chapter 4 Solutions

Multiple Choice Solutions

1. C
2. D
3. B
4. B
5. B
6. A
7. D
8. D
9. D
10. C
11. B
12. C
13. C
14. D
15. B

Chapter 4 Solutions (Cont.)

Exercise Solutions

1. 1. B 2. A 3. B 4. C 5. D 6. C 7. A 8. D

2.

<i>Example: Bought supplies for \$500 on Jan. 1.</i>	Date	Debit	Credit
<i>Supplies</i>	Jan. 1	500	
Cash			500
a. Depreciation Expense	Dec. 31	1,340	
Accumulated Depreciation- Equipment			1,340
b. Interest Expense	Dec. 31	275	
Interest Payable			275
c. Supplies Expense	Dec. 31	450	
Supplies (\$550 - \$100)			450
d. Rent Expense	Dec. 31	700	
Prepaid Rent			700
e. Salaries and Wages Expense	Dec. 31	900	
Salaries and Wages Payable			900

Chapter 4 Solutions (Cont.)**Exercise Solutions (Cont.)**

3.

	Date	Debit	Credit
<i>Example: Bought supplies for \$500 on Jan. 1.</i>			
Supplies	Jan. 1	500	
Cash			500
a. Interest Receivable	Dec. 31	30	
Interest Revenue			30
b. Unearned Service Revenue	Dec. 31	1,000	
Service Revenue			1,000
c. Rent Expense ($\$45,000 \div 3$ years)	Dec. 31	15,000	
Prepaid Rent			15,000
d. Accounts Receivable	Dec. 31	2,900	
Service Revenue			2,900
e. Depreciation Expense	Dec. 31	6,500	
Accumulated Depreciation—Equipment			6,500
f. Supplies Expense ($\$850 - \250)	Dec. 31	600	
Supplies			600
g. Salaries and Wages Expense	Dec. 31	960	
Salaries and Wages Payable			960

Chapter 4 Solutions (Cont.)**Exercise Solutions (Cont.)**

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