

Name: \_\_\_\_\_ Date: \_\_\_\_\_

1. As of December 31, 2005, NEP Company had \$1,500 of assets, \$600 of liabilities and \$200 of retained earnings. The balance in the common stock account on the December 31, 2005 balance sheet would be:
  - A) \$ 700
  - B) \$2,100
  - C) \$ 800
  - D) \$2,300
  
2. As of December 31, 2005, Mist Company had \$500 cash. During 2006 Mist earned \$1,200 of cash revenue and paid \$800 of cash expenses. The amount of the cash balance shown on the 2006 balance sheet would be:
  - A) \$ 400
  - B) \$1,200
  - C) \$ 900
  - D) \$2,500

Use the following to answer questions 3-5:

*(Assume all transactions are cash transactions)*

El Gato Company engaged in the following transactions during 2005:

1. The business acquired \$3,000 cash from the issue of common stock.
2. The Company borrowed \$2,200 from a bank.
3. The Company earned \$3,100 of revenues.
4. Expenses amounted to \$2,400.
5. Dividends amounted to \$500.

El Gato Company engaged in the following transactions during 2006:

1. The business acquired an additional \$500 cash from the issue of common stock.
2. The Company repaid \$1,300 of its debt to the bank.
3. Revenues amounted to \$4,500.
4. Expenses were \$2,750.
5. Dividends amounted to \$740.

3. The amount of total assets on El Gato's 2005 Balance Sheet is:
  - A) \$ 5,200
  - B) \$ 5,400
  - C) \$12,500
  - D) \$ 5,700

4. The amount of retained earnings on El Gato's 2005 Balance Sheet is:
  - A) \$9,900
  - B) \$1,000
  - C) \$2,900
  - D) \$1,210
  
5. The amount of liabilities on El Gato's 2006 Balance Sheet is:
  - A) \$ 900
  - B) \$ 500
  - C) \$1,300
  - D) \$ 240
  
6. Total equity of Budd Company at the beginning of the 2006 period amounted to \$2,500. During 2006 the company reported net income of \$1,200 and paid a \$500 dividend. If retained earnings at the end of 2006 is \$1,100, what was beginning contributed capital?
  - A) \$1,200
  - B) \$2,100
  - C) \$ 400
  - D) Cannot be determined.
  
7. During 2005, the Marlin Company earned \$3,700 of cash revenue, paid cash dividends of \$750 to owners and paid \$930 for cash expenses. Which of the following accurately describes the total effect of these events on the elements of the company's financial statements?
  - A) Assets would increase by \$3,700.
  - B) Equity would increase by \$1,680.
  - C) Assets would increase by \$2,020.
  - D) Equity would increase by \$2,770.

Use the following to answer questions 8-9:

Benny's Repair Shop started the year with total assets of \$100,000 and total liabilities of \$80,000. During the year the business recorded \$210,000 in revenues, \$110,000 in expenses, and dividends of \$20,000.

8. Stockholders' equity at the end of the year was
  - A) \$120,000.
  - B) \$100,000.
  - C) \$80,000.
  - D) \$90,000.

9. The net income reported by Benny's Repair Shop for the year was
- A) \$80,000.
  - B) \$100,000.
  - C) \$60,000.
  - D) \$190,000.

Use the following to answer questions 10-11:

Claire's Accessory Shop started the year with total assets of \$70,000 and total liabilities of \$40,000. During the year the business recorded \$110,000 in revenues, \$55,000 in expenses, and dividends of \$20,000.

10. Stockholders' equity at the end of the year was
- A) \$60,000.
  - B) \$55,000.
  - C) \$65,000.
  - D) \$35,000.
11. The net income reported by Claire's Accessory Shop for the year was
- A) \$40,000.
  - B) \$50,000.
  - C) \$65,000.
  - D) \$55,000.
12. If total liabilities increased by \$15,000 and stockholders' equity increased by \$5,000 during a period of time, then total assets must change by what amount and direction during that same period?
- A) \$20,000 decrease
  - B) \$20,000 increase
  - C) \$25,000 increase
  - D) \$30,000 increase
13. If total liabilities decreased by \$25,000 and stockholders' equity increased by \$5,000 during a period of time, then total assets must change by what amount and direction during that same period?
- A) \$20,000 decrease
  - B) \$20,000 increase
  - C) \$25,000 increase
  - D) \$30,000 increase

Use the following to answer questions 14-16:

Carter Company compiled the following financial information as of December 31, 2007:

Revenues	\$140,000
Common stock	30,000
Equipment	40,000
Expenses	125,000
Cash	35,000
Dividends	10,000
Supplies	5,000
Accounts payable	20,000
Accounts receivable	15,000
Retained earnings, 1/1/07	75,000

14. Carter's assets on December 31, 2007 are:
- A) \$235,000
  - B) \$170,000
  - C) \$ 80,000
  - D) \$ 95,000
15. Carter's retained earnings on December 31, 2007 are:
- A) \$75,000
  - B) \$90,000
  - C) \$80,000
  - D) \$ 5,000
16. Carter's stockholders' equity on December 31, 2007 is:
- A) \$105,000
  - B) \$110,000
  - C) \$ 80,000
  - D) \$120,000

Use the following to answer questions 17-19:

Bluestone Company compiled the following financial information as of December 31, 2007:

Revenues	\$280,000
Common stock	60,000
Equipment	80,000
Expenses	250,000
Cash	70,000
Dividends	20,000
Supplies	10,000
Accounts payable	40,000
Accounts receivable	30,000
Retained earnings, 1/1/07	150,000

17. Bluestone's assets on December 31, 2007 are:
- A) \$470,000
  - B) \$340,000
  - C) \$160,000
  - D) \$190,000
18. Bluestone's retained earnings on December 31, 2007 are:
- A) \$150,000
  - B) \$180,000
  - C) \$160,000
  - D) \$ 10,000
19. Bluestone's stockholders' equity on December 31, 2007 is:
- A) \$210,000
  - B) \$220,000
  - C) \$160,000
  - D) \$240,000
20. Nez Company provided services for \$7,500 cash during the 2005 accounting period. Nez incurred \$6,000 expenses on account during 2005, and by the end of the year, \$3,000 of that amount had been paid with cash. Assuming that these are the only accounting events that affected Nez during the 2005 accounting period:
- A) The amount of net income shown on the income statement is \$1,500.
  - B) The amount of net income shown on the income statement is \$4,500.
  - C) The amount of net loss shown on the income statement is \$1,500.
  - D) The amount of net cash flow from operating activities shown on the statement of cash flows is \$3,000.

Use the following to answer question 21:

The Cronin Company purchased a one year \$5,000 certificate of deposit from the Palm Beach Bank on April 1, 2004. The certificate pays 8% annual interest.

21. The December 31, 2004 adjusting entry required to record accrued interest on Cronin's books would:
- A) increase assets and equity by \$300.
  - B) increase assets and liabilities by \$300.
  - C) increase assets and equity by \$267.
  - D) increase assets and liabilities by \$267.
22. The balance sheet on December 31 of the Zebra Company contained the following accounts and balances:

Cash	\$ 500	Certificate of Deposit	\$600
Equipment	\$1,250	Common Stock	?
Accounts Payable	\$ 500	Retained Earnings	\$850

Based on the above information only, common stock must be what amount?

- A) \$ -0-
- B) \$ 250
- C) \$1,000
- D) \$1,100

Use the following to answer question 23:

Ulmer Company borrowed \$8,000 on April 1, 2005 from the Meramec Bank. The note issued by Ulmer carried a one year term and a 7% annual interest rate. Ulmer earned cash revenue of \$850 in 2005 and \$700 in 2006. Assume no other transactions.

23. The amount of net income on the 2006 year end financial statements would be:
- A) \$140.
  - B) \$560.
  - C) \$700.
  - D) \$290.

24. Revenue on account amounted to \$5,000. Cash collections of accounts receivable amounted to \$2,300. Expenses incurred on account amounted to \$2,100. Cash paid on accounts payable amounted to \$1,950. Net income is:
- A) \$ 200.
  - B) \$ 350.
  - C) \$3,050.
  - D) \$2,900.
25. The Dent Company purchased land costing \$2,400 cash. The company earned \$2,000 revenue on account and incurred \$1,100 of operating expenses on account. As a result of these transactions:
- A) total assets increased by \$2,400.
  - B) liabilities increased by \$1,100.
  - C) total assets increased by \$5,400.
  - D) both a and b.
26. The Blumer Company issued stock for \$30,000 cash on January 20, 2004. During 2004, the company recorded revenue on account of \$12,000 and expenses on account of \$5,500. Blumer received \$8,200 cash from accounts receivable and paid \$4,100 on the accounts payable. The company also purchased land for \$5,000 cash. The beginning cash balance was zero. Based on this information, the amount of change in cash is:
- A) 35,600
  - B) 22,974
  - C) 31,500
  - D) 29,100
27. Reporting a net income of \$95,000 will
- A) increase retained earnings.
  - B) decrease retained earnings.
  - C) increase common stock.
  - D) decrease common stock.
28. Liondale Corporation had beginning retained earnings of \$2,292,000 and ending retained earnings of \$2,499,000. During the year they issued common stock totaling \$141,000. What was their net income for the year?
- A) \$207,000
  - B) \$ 66,000
  - C) \$348,000
  - D) \$273,000

29. Morten Corporation had beginning retained earnings of \$764,000 and ending retained earnings of \$833,000. During the year they issued common stock totaling \$47,000. What was their net income for the year?
- A) \$69,000
  - B) \$22,000
  - C) \$116,000
  - D) \$91,000
30. At December 31, 2007 Shorts Company had retained earnings of \$2,184,000. During 2007 they issued stock for \$98,000, and paid dividends of \$34,000. Net income for 2007 was \$402,000. The retained earnings balance at the beginning of 2007 was:
- A) \$2,552,000
  - B) \$1,816,000
  - C) \$1,914,000
  - D) \$2,454,000
31. At December 31, 2007 Long Company had retained earnings of \$1,092,000. During 2007 they issued stock for \$49,000, and paid dividends of \$17,000. Net income for 2007 was \$201,000. The retained earnings balance at the beginning of 2007 was:
- A) \$1,276,000
  - B) \$908,000
  - C) \$957,000
  - D) \$1,227,000
32. If total liabilities increased by \$5,000, then
- A) assets must have decreased by \$5,000.
  - B) stockholders' equity must have increased by \$5,000.
  - C) assets must have increased by \$5,000, or stockholders' equity must have decreased by \$5,000.
  - D) assets and stockholders' equity each increased by \$2,500.
33. If total liabilities decreased by \$4,000, then
- A) stockholders' equity must have decreased by \$4,000.
  - B) assets must have decreased by \$4,000, or stockholders' equity must have increased by \$4,000.
  - C) assets and stockholders' equity each increased by \$2,000.
  - D) assets must have increased by \$4,000.



34. Collection of a \$600 Accounts Receivable
- A) increases an asset \$600; decreases an asset \$600.
  - B) increases an asset \$600; decreases a liability \$600.
  - C) decreases a liability \$600; increases stockholders' equity \$600.
  - D) decreases an asset \$600; decreases a liability \$600.
35. The classification and normal balance of the dividend account is
- A) revenue with a credit balance.
  - B) an expense with a debit balance.
  - C) a liability with a credit balance.
  - D) stockholders' equity with a debit balance.
36. At September 1, 2007, Enon Enterprises reported a cash balance of \$45,000. During the month, Enon collected cash of \$15,000 and made disbursements of \$25,000. At September 31, 2007, the cash balance is
- A) \$25,000 credit
  - B) \$35,000 credit
  - C) \$60,000 debit
  - D) \$35,000 debit
37. At January 31, 2001, the balance in Prieto Inc,'s supplies account was \$250. During February, Prieto purchased supplies of \$300 and used supplies of \$400. At the end of February, the balance in the supplies account should be
- A) \$250 debit.
  - B) \$350 credit.
  - C) \$950 debit.
  - D) \$150 debit
38. At December 1, 2007, Marco Company's accounts receivable balance was \$1,200. During December, Marco had credit sales of \$5,000 and collected accounts receivable of \$4,000. At December 31, 2007, the accounts receivable balance is
- A) \$1,200 debit
  - B) \$2,200 debit
  - C) \$6,200 debit
  - D) \$2,200 credit

39. At October 1, 2007, Deet Industries had an accounts payable balance of \$30,000. During the month, the company made purchases on account of \$25,000 and made payments on account of \$40,000. At October 31, 2007, the accounts payable balance is
- A) \$30,000 debit
  - B) \$10,000 credit
  - C) \$15,000 credit
  - D) \$40,000 credit
40. A \$20,000 machine is purchased by paying \$5,000 cash and signing a note payable for the remainder. The journal entry should include a
- A) credit to note payable.
  - B) debit to cash.
  - C) credit to notes receivable.
  - D) credit to machinery.
41. A trial balance proves
- A) the mathematical equality of debits and credits after the posting process.
  - B) the ledger is posted correctly.
  - C) that all transactions have been recorded correctly.
  - D) that all transactions have been posted.
42. Which of the following errors, each considered individually, would cause the trial balance to be out of balance?
- A) A payment of \$148 to a creditor was posted as a debit to accounts payable and a debit of \$148 to cash.
  - B) Cash received from a customer on account was posted as a debit of \$350 to cash and as a credit of \$350 to accounts payable.
  - C) A payment of \$59 for supplies was posted as a debit of \$95 to supplies and a credit of \$95 to cash.
  - D) A transaction was not posted.
43. The Powell Company started the accounting period with \$500 in supplies. During the period the company purchased \$1,100 of supplies on account. At the end of the accounting period there were \$700 of supplies on hand. Based on this information, the amount of supplies expense appearing on the end-of-period income statement would be:
- A) \$1,600.
  - B) \$1,100.
  - C) \$ 900.
  - D) \$ 400.

44. Leland Industries purchased a truck for \$20,000 that was estimated to have a 5-year life and \$2,000 salvage value. How much of the truck's cost will be expensed over 5 years?
- A) \$ 4,000
  - B) \$20,000
  - C) \$ 3,600
  - D) \$18,000

Use the following to answer question 45:

Chain Company signed a three year contract to perform consulting services for a local manufacturer on September 1, 2005. Chain received \$35,000 cash as an advance payment for these services and agreed the work would begin immediately.

45. The amount of revenue that would appear on the 2005 and 2006 income statement would be:
- A) \$11,667 / \$11,667.
  - B) \$35,000 / \$ -0-.
  - C) \$3,889 / \$11,667.
  - D) \$ 5,833/ \$29,187.
46. Which of the following accounts is a temporary account?
- A) Prepaid insurance.
  - B) Unearned subscriptions revenue.
  - C) Accumulated depreciation.
  - D) Interest expense.
47. Harrigan and Sons provide legal services. On September 1, 2005 Harrigan contracted to provide 12 months of legal services to their client. On that date, Harrigan collected a \$36,000 retainer and began services. How much revenue would Harrigan report from that client for the year ending December 31, 2005?
- A) 36,000
  - B) 12,000
  - C) 9,000
  - D) 0

48. During February 2007, its first month of operations, the owner of Rutwing Enterprises invested cash of \$25,000. Rutwing had cash sales of \$4,000 and paid expenses of \$7,000. Assuming no other transactions impacted the cash account, what is the balance in Cash at February 28?
- A) \$3,000 credit
  - B) \$22,000 debit
  - C) \$29,000 debit
  - D) \$18,000 credit
49. During January 2007, Handy Services Inc. paid a cash dividends of \$2,000. This transaction
- A) reduces stockholders' equity by \$2,000.
  - B) increases stockholders' equity by \$2,000.
  - C) reduces net income by \$2,000.
  - D) increases expenses by \$2,000.
50. At January 1, 2007, Burton Industries reported Retained Earnings of \$130,000. During 2007, Burton had a net loss of \$30,000 and paid dividends to the stockholders of \$20,000. At December 31, 2007, the balance in Retained Earnings is
- A) \$130,000 debit
  - B) \$140,000 credit
  - C) \$100,000 debit
  - D) \$80,000 credit
51. Which of the following accounts is increased with a debit?
- A) Dividends
  - B) Legal fees earned
  - C) Rent payable
  - D) Common stock
52. Anderson Company purchased equipment for \$1,800 cash. As a result of this event,
- A) equity decreased by \$1,800.
  - B) assets increased by \$1,800.
  - C) assets remained unchanged.
  - D) Both a and b.
53. Which of the following items has no effect on retained earnings?
- A) Expense
  - B) Dividends
  - C) Land purchase
  - D) Revenue

54. If services are rendered for cash, then  
 A) assets will increase.  
 B) liabilities will increase.  
 C) stockholders' equity will decrease.  
 D) liabilities will decrease.
55. If expenses are paid in cash, then  
 A) assets will increase.  
 B) liabilities will decrease.  
 C) stockholders' equity will increase.  
 D) assets will decrease.
56. On January 1, 2004 the Marlin Company purchased a tractor that cost \$30,000; had a five year useful life; and a \$5,000 salvage value. Which of the following is the correct general journal entry to record depreciation expense for the 2005 fiscal year?
- A)
- |                   |       |       |
|-------------------|-------|-------|
| Depreciation Exp. | 6,000 |       |
| Acc. Depreciation |       | 6,000 |
- B)
- |                   |       |       |
|-------------------|-------|-------|
| Acc. Depreciation | 5,000 |       |
| Depreciation Exp. |       | 5,000 |
- C)
- |                   |       |       |
|-------------------|-------|-------|
| Acc. Depreciation | 6,000 |       |
| Depreciation Exp. |       | 6,000 |
- D)
- |                   |       |       |
|-------------------|-------|-------|
| Depreciation Exp. | 5,000 |       |
| Acc. Depreciation |       | 5,000 |
57. Wessely Company issued a \$35,000 face value note to the Meramec Bank on August 1, 2005. The note carried a 12% annual rate of interest and a one year term. Which of the following general journal entries would be necessary to record accrued interest on December 31, 2005?
- A)
- |                  |       |       |
|------------------|-------|-------|
| Interest Expense | 1,750 |       |
| Interest Payable |       | 1,750 |
- B)
- |                  |       |       |
|------------------|-------|-------|
| Interest Payable | 1,750 |       |
| Interest Expense |       | 1,750 |
- C)
- |                  |       |       |
|------------------|-------|-------|
| Interest Expense | 4,200 |       |
| Interest Payable |       | 4,200 |
- D)
- |                  |       |       |
|------------------|-------|-------|
| Interest Payable | 4,200 |       |
| Interest Expense |       | 4,200 |

58. On November 1, 2004, Schumacher Company paid \$1,200 in advance for an insurance policy that covered the company for six months. Assuming that Schumacher recorded this purchase as an asset, the adjusting entry required on December 31, 2004 would include:
- A) a debit to prepaid insurance for \$1,200.
  - B) a credit to prepaid insurance for \$1,200.
  - C) a credit to insurance expense for \$400.
  - D) a debit to insurance expense for \$400
59. POP Company began the accounting period with a \$11,000 debit balance in its accounts receivable account. During the accounting period POP recorded revenue on account amounting to \$22,000. The accounts receivable account at the end of the accounting period contained an \$13,000 debit balance. Based on this information alone, the cash collected from accounts receivables during the period is
- A) \$22,000
  - B) \$9,000
  - C) \$20,000
  - D) \$13,000
60. Which account will increase by a credit to the account?
- A) Accounts Receivable.
  - B) Prepaid Insurance.
  - C) Service Revenue.
  - D) Rent Expense.
61. The following is a random list of the accounts of Gregory Company:

Cash	\$820	Common Stock	\$2,100
Accounts Payable	950	Land	1,800
Equipment	2,850	Accumulated Depreciation	1,000
Prepaid Rent	750	Retained Earnings	1,820

If these accounts were presented in a trial balance, the total of the credit column would be equal to:

- A) \$4,870.
- B) \$3,770.
- C) \$5,870.
- D) \$4,050.

Use the following to answer questions 62-63:

Sheepskin Company had the following transactions during 2006.

- Sales of \$4,500 on account
- Collected \$2,000 for services to be performed in 2007
- Paid \$625 cash in salaries
- Purchased airline tickets for \$250 in December for a trip to take place in 2007

62. What is Sheepskin's 2006 net income using accrual accounting?
- A) \$3,875
  - B) \$5,875
  - C) \$5,625
  - D) \$3,625
63. What is Sheepskin's 2006 net income using cash basis accounting?
- A) \$5,875
  - B) \$1,375
  - C) \$5,625
  - D) \$1,125
64. The primary difference between prepaid and accrued expenses is that prepaid expenses have
- A) been incurred and accrued expenses have not.
  - B) not been paid and accrued expenses have.
  - C) been recorded and accrued expenses have not.
  - D) not been recorded and accrued expenses have.
65. The Village Laundry Company purchased \$6,500 worth of laundry supplies on June 2 and recorded the purchase as an asset. On June 30, an inventory of the laundry supplies indicated only \$3,000 on hand. The adjusting entry that should be made by the company on June 30 is
- A) Debit Laundry Supplies Expense, \$3,000; Credit Laundry Supplies, \$3,000.
  - B) Debit Laundry Supplies Expense, \$3,500; Credit Laundry Supplies, \$3,000.
  - C) Debit Laundry Supplies, \$3,500; Credit Laundry Supplies Expense, \$3,500.
  - D) Debit Laundry Supplies Expense, \$3,500; Credit Laundry Supplies, \$3,500.

66. Unearned revenue is classified as a(n)
- A) asset account.
  - B) revenue account.
  - C) contra revenue account.
  - D) liability.
67. 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 Revenue and credit Cash.
  - B) debit Unearned Revenue and credit Revenue Earned.
  - C) debit Unearned Revenue and credit Prepaid Expense.
  - D) debit Unearned Revenue and credit Accounts Receivable.
68. The Harris Company purchased a computer for \$4,500 on December 1. It is estimated that annual depreciation on the computer will be \$900. If financial statements are to be prepared on December 31, the company should make the following adjusting entry
- A) Debit Depreciation Expense, \$900; Credit Accumulated Depreciation, \$900.
  - B) Debit Depreciation Expense, \$75; Credit Accumulated Depreciation, \$75.
  - C) Debit Depreciation Expense, \$3,600; Credit Accumulated Depreciation, \$3,600.
  - D) Debit Office Equipment, \$4,500; Credit Accumulated Depreciation, \$4,500.
69. McCloud Realty Company received a check for \$18,000 on July 1, which represents a 6-month advance payment of rent on a building it rents to a client. Unearned Rental Revenue was credited for the full \$18,000. Financial statements will be prepared on July 31. McCloud Realty should make the following adjusting entry on July 31
- A) Debit Unearned Rental Revenue, \$3,000; Credit Rental Revenue, \$3,000.
  - B) Debit Rental Revenue, \$3,000; Credit Unearned Rental Revenue, \$3,000.
  - C) Debit Unearned Rental Revenue, \$18,000; Credit Rental Revenue, \$18,000.
  - D) Debit Cash, \$18,000; Credit Rental Revenue, \$18,000.
70. As prepaid expenses expire with the passage of time, the correct adjusting entry will be a
- A) debit to an asset account and a credit to an expense account.
  - B) debit to an expense account and a credit to an asset account.
  - C) debit to an asset account and a credit to an asset account.
  - D) debit to an expense account and a credit to an expense account.



71. At December 31, 2007, before any year-end adjustments, Janis Company's Prepaid Insurance account had a balance of \$1,900. It was determined that \$1,400 of the Prepaid Insurance had expired. The adjusted balance for Prepaid Insurance for the year would be
- A) \$1,400.
  - B) \$500.
  - C) \$3,300.
  - D) \$1,900.

Use the following to answer question 72:

The trial balance for Houley Corporation appears as follows:

<b>Houley Corporation</b>		
Trial Balance		
<u>December 31, 2007</u>		
Cash	\$ 300	
Accounts Receivable	500	
Prepaid Insurance	60	
Supplies	140	
Office Equipment	4,000	
Accumulated Depreciation, Office Equipment		\$ 800
Accounts Payable		300
Common Stock		1,000
Retained Earnings		1,400
Service Revenue		3,000
Salaries Expense	1,000	
Rent Expense	500	
	<u>\$6,500</u>	<u>\$6,500</u>

72. If the estimated depreciation for office equipment were \$800, the adjusting entry would contain a
- A) credit to Accumulated Depreciation, Office Equipment for \$800.
  - B) credit to Depreciation Expense, Office Equipment for \$800.
  - C) debit to Accumulated Depreciation, Office Equipment for \$800.
  - D) credit to Office Equipment for \$800.

73. Waterfalls Corporation purchased a one-year insurance policy in January 2006 for \$66,000. The insurance policy is in effect from March 2006 through February 2007. If the company neglects to make the proper year-end adjustment for the expired insurance
- A) Net income and assets will be understated by \$55,000
  - B) Net income and assets will be overstated by \$55,000
  - C) Net income and assets will be understated by \$11,000
  - D) Net income and assets will be overstated by \$11,000
74. Younger Corporation purchased a one-year insurance policy in January 2006 for \$48,000. The insurance policy is in effect from March 2006 through February 2007. If the company neglects to make the proper year-end adjustment for the expired insurance
- A) Net income and assets will be understated by \$40,000
  - B) Net income and assets will be overstated by \$40,000
  - C) Net income and assets will be understated by \$8,000
  - D) Net income and assets will be overstated by \$8,000
75. Maple Tree Inc. purchased a 12-month insurance policy on March 1, 2007 for \$900. At March 31, 2007, the adjusting journal entry to record expiration of this asset will include
- A) a debit to Prepaid Insurance and a credit to Cash for \$900.
  - B) a debit to Prepaid Insurance and a credit to Insurance Expense for \$100.
  - C) a debit to Insurance Expense and a credit to Prepaid Insurance for \$75
  - D) a debit to Insurance Expense and a credit to Cash for \$75.
76. Ogletree Enterprises purchased a 18-month insurance policy on May 31, 2007 for \$3,600. The December 31, 2007 balance sheet would report Prepaid Insurance of
- A) \$0 because Prepaid Insurance is reported on the Income Statement.
  - B) \$1,400
  - C) \$2,200
  - D) \$3,600
77. At March 1, J.C. Retro Inc. reported a balance in Supplies of \$200. During March, the company purchased supplies for \$750 and consumed supplies of \$800. If no adjusting entry is made for supplies
- A) stockholders' equity will be overstated by \$800.
  - B) expenses will be understated by \$750.
  - C) assets will be understated by \$150.
  - D) net income will be understated by \$800.

78. FMI Inc. pays its rent of \$120,000 annually on January 1. If the February 28 monthly adjusting entry for prepaid rent is omitted, which of the following are true
- A) Failure to make the adjustment does not affect the February financial statements.
  - B) Expenses will be overstated by \$10,000 and net income and stockholders' equity will be understated by \$10,000.
  - C) Assets will be overstated by \$20,000 and net income and stockholders' equity will be understated by \$20,000.
  - D) Assets will be overstated by \$10,000 and net income and stockholders' equity will be overstated by \$10,000.
79. Draxon Company borrowed \$20,000 from the bank signing a 6%, 3-month note on September 1. Principal and interest are payable to the bank on December 1. If the company prepares monthly financial statements, the adjusting entry that the company should make for interest on September 30, would be
- A) Debit Interest Expense, \$1,200; Credit Interest Payable, \$1,200.
  - B) Debit Interest Expense, \$100; Credit Interest Payable, \$100.
  - C) Debit Note Payable, \$1,200; Credit Cash, \$1,200.
  - D) Debit Cash, \$300; Credit Interest Payable, \$300.
80. Manning Corporation issued a one-year 9% \$200,000 note on April 30, 2007. Interest expense for the year ended December 31, 2007 was?
- A) \$18,000
  - B) \$13,500
  - C) \$12,000
  - D) \$10,500