

Name: _____ Date: _____

1. If the assets owned by a business total \$100,000 and liabilities total \$70,000, stockholders' equity totals \$30,000.
 - A) True
 - B) False

2. If total liabilities decreased by \$30,000 during a period of time and owners equity increased by \$35,000 during the same period, the amount and direction (increase or decrease) of the period's change in total assets is a:
 - A) \$65,000 increase.
 - B) \$5,000 increase.
 - C) \$5,000 decrease.
 - D) \$65,000 decrease.

3. The Accumulated Depreciation account is a(n)
 - A) contra asset.
 - B) liability.
 - C) asset.
 - D) operating expense.

4. A post-closing trial balance contains
 - A) real and nominal accounts.
 - B) permanent and temporary accounts.
 - C) balance sheet or permanent accounts.
 - D) balance sheet and retained earnings statement accounts.

5. Which one of the following accounts is not closed at the end of an accounting period?
 - A) Retained Earnings account
 - B) Dividends account
 - C) Service Revenue account
 - D) Insurance Expense account

6. Tanner Company debited Prepaid Insurance for \$600 on May 1, 2007, for a one-year fire insurance policy. If the company prepares monthly financial statements, failure to make an adjusting entry on May 31, for the amount of insurance that has expired would cause
 - A) assets to be overstated by \$600 and expenses to be understated by \$600.
 - B) expenses to be overstated by \$50 and assets to be understated by \$50.
 - C) assets to be overstated by \$50 and expenses to be understated by \$50.
 - D) expenses to be overstated by \$600 and assets to be understated by \$600.

7. The purpose of recording depreciation on productive assets is to
 - A) reflect the decline in the market value of the assets each period.
 - B) reduce income when the company has an exceptionally profitable year.
 - C) be in conformity with the revenue recognition principle.
 - D) allocate the original cost of a productive asset to expense over its useful life.

8. A corporation with total stockholders' equity of \$75,000 paid a \$12,000 business debt. As a result of this transaction, total stockholders' equity
 - A) did not change.
 - B) increased by \$12,000.
 - C) decreased by \$12,000.
 - D) increased to \$75,000.

9. In the first month of operations, the total of the debit entries to the cash account amounted to \$900 and the total of the credit entries to the cash account amounted to \$400. The cash account has a
 - A) \$400 credit balance.
 - B) \$900 debit balance.
 - C) \$500 debit balance.
 - D) \$500 credit balance.

10. Ann Arnie and Associates is a financial planning service. The account balances at December 31, 2007 are shown by the following alphabetical list:

Accounts Payable	\$ 23,000
Accounts Receivable	16,000
Automobiles	27,500
Building	120,000
Cash	18,500
Common Stock	167,700
Computer	29,000
Computer Software	4,200
Land	42,000
Notes Payable	95,000
Notes Receivable	9,100
Office Furniture	15,400
Office Supplies	800
Technical Library	3,200

Instructions

Prepare a trial balance with the accounts arranged in financial statement order.

11. The ledger accounts of the Tone Up Gym at July 31, 2007 are shown below:

Accounts Payable	\$ 9,100
Accounts Receivable	1,050
Building	55,400
Common Stock	65,100
Cash	12,000
Exercise Equipment	18,900
Weight Equipment	25,000
Notes Payable	51,000
Office Supplies	350
Office Equipment	2,000
Dividends	10,500

Instructions

Prepare a trial balance with the ledger accounts arranged in the proper financial statement order. Include the appropriate heading.

12. The trial balance of the Floyd Company shown below does not balance.

FLOYD COMPANY
Trial Balance
June 30, 2007

	Debit	Credit
Cash	\$ 2,600	
Accounts Receivable	7,600	
Supplies	600	
Equipment	8,300	
Accounts Payable		\$ 9,766
Common Stock		1,941
Dividends	1,500	
Service Revenue		15,200
Wages Expense	3,800	
Repair Expense	1,600	
Totals	\$26,000	\$26,907

An examination of the ledger and journal reveals the following errors:

1. Each of the above listed accounts has a normal balance per the general ledger.
2. Cash of \$350 received from a customer on account was debited to Cash \$530 and credited to Accounts Receivable \$530.
3. Dividends of \$300 paid to stockholders were posted as a credit to Dividends, \$300 and a credit to Cash \$300.
4. Wages Expense of \$300 was omitted from the trial balance.
5. The purchase of equipment on account for \$700 was recorded as a debit to Repair Expense and a credit to Accounts Payable for \$700.
6. Services were performed on account for a customer, \$510, for which Accounts Receivable was debited \$510 and Service Revenue was credited \$51.
7. A payment on account for \$215 was credited to Cash for \$215 and credited to Accounts Payable for \$251.

Instructions

Prepare a correct trial balance.

13. Journalize the following business transactions in general journal form. Identify each transaction by number. You may omit explanations of the transactions.

1. Received \$35,000 from stockholders.
2. Purchased equipment for \$50,000, paying \$15,000 in cash and giving a note payable for the remainder.
3. Paid \$3,000 rent for the month.
4. Recorded \$12,500 of services provided on account.
5. Paid wages of \$7,500.
6. Received \$7,000 in cash for services provided.
7. Collected \$2,000 from customers on account.

14. For the accounts listed below, indicate if the normal balance of the account is a debit or credit.

<u>Accounts</u>	<u>Normal Balance Debit or Credit</u>
1. Service Revenue	_____
2. Rent Expense	_____
3. Accounts Receivable	_____
4. Accounts Payable	_____
5. Common Stock	_____
6. Office Supplies	_____
7. Insurance Expense	_____
8. Dividends	_____
9. Office Building	_____
10. Notes Payable	_____

15. At June 1, 2007, Groober Industries had an accounts receivable balance of \$12,000. During the month, the company had credit sales of \$25,000 and collected accounts receivable of \$27,000. What is the balance in accounts receivable at June 30, 2007?

16. For each item below, indicate whether a debit or credit applies.

1. Increase in accounts payable _____
2. Increase in accounts receivable. _____
3. Increase in retained earnings. _____
4. Decrease in unearned revenue _____
5. Decrease in Interest payable _____

17. For which of the following types of adjusting entries are liabilities overstated and revenues understated before the adjusting entry is made?
- A) Unearned Revenues
 - B) Accrued Revenues
 - C) Prepaid Expenses
 - D) Accrued Expenses
18. Transactions are initially recorded in the
- A) ledger.
 - B) trial balance.
 - C) journal.
 - D) balance sheet.
19. A credit will reduce _____, but increase _____.
- A) accounts receivable; accounts payable
 - B) expenses; accounts receivable
 - C) accounts payable; common stock
 - D) common stock; prepaid insurance
20. An accrued expense account represents expenses that have
- A) been used and paid.
 - B) been paid but not used.
 - C) not been used or paid.
 - D) been used but not paid.
21. What type of relationship exists with an unearned revenue adjusting entry?
- A) Receivable/revenue
 - B) Liability/revenue
 - C) Asset/revenue
 - D) Expense/liability
22. The book value of a depreciable asset is defined as the asset's
- A) cost less accumulated depreciation.
 - B) current market value.
 - C) replacement cost.
 - D) cost.

23. A business pays weekly salaries of \$15,000 on Friday for a five-day week ending on that day. The adjusting entry necessary at the end of the fiscal period ending on Thursday is:
- A) debit Salaries Payable, \$12,000; credit Cash \$12,000.
 - B) debit Salaries Expense, \$12,000; credit Cash \$12,000.
 - C) debit Salaries Expense, \$12,000; credit Accounts Payable \$12,000.
 - D) debit Salaries Expense, \$12,000; credit Salaries Payable \$12,000.
24. Kanns Company signed a \$3,000 ninety day note payable on November 1 that bears interest at a rate of 7%. The total interest to be accrued on this note at December 31 is
- A) \$17.50.
 - B) \$35.00
 - C) \$210.
 - D) \$52.50.
25. Match the items below by entering the appropriate code letter in the space provided.
- | | |
|----------------------------------|-------------------------------|
| A. Time period assumption | F. Accrued revenues |
| B. Cash basis | G. Depreciation |
| C. Revenue recognition principle | H. Post-closing trial balance |
| D. Prepaid expenses | I. Accrued expenses |
| E. Matching principle | J. Book value |
-
- _____ 1. Events recorded only in periods the company receives or pays cash
 - _____ 2. Expenses paid before they are incurred
 - _____ 3. Cost less accumulated depreciation
 - _____ 4. The economic life of a business can be divided into artificial time periods
 - _____ 5. Efforts are related to accomplishments
 - _____ 6. Includes only permanent—balance sheet—accounts
 - _____ 7. Revenue is recognized when earned
 - _____ 8. Revenues earned but not yet received
 - _____ 9. Expenses incurred but not yet paid
 - _____ 10. A cost allocation process

26. Before month-end adjustments are made, the February 28 trial balance of Bose's Enterprise contains revenue of \$11,000 and expenses of \$7,600. Adjustments are necessary for the following items:

- Depreciation for February is \$1,200.
- Revenue earned but not yet billed is \$2,800.
- Accrued interest expense is \$800.
- Revenue collected in advance that is now earned is \$2,500.
- Portion of prepaid insurance expired during February is \$500.

Instructions

Calculate the correct net income for Bose's Enterprise for February 3.

27. Before month-end adjustments are made, the September 30 trial balance of Lector's Enterprise contains revenue of \$9,200 and expenses of \$5,300. Adjustments are necessary for the following items:

- Depreciation for September is \$300.
- Revenue earned but not yet billed is \$2,100.
- Accrued interest expense is \$600.
- Revenue collected in advance that is now earned is \$3,400.
- Portion of prepaid insurance expired during September is \$300.

Instructions

Calculate the correct net income for Lector's enterprise for September.

28. 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.

29. 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.
 5. Unpaid salaries earned by year end but not yet paid or recorded amounted to \$1,200.
30. River Ridge Music School borrowed \$20,000 from the bank signing a 10%, 6-month note on November 1. Principal and interest are payable to the bank on May 1. If the company prepares monthly financial statements, what adjusting entry should the company make at November 30 with regard to the note (round answer to the nearest dollar)?
31. The adjusted trial balance of Jesper Corporation at December 31, 2007 includes the following accounts: Retained Earnings \$12,600; Dividends \$6,000; Service Revenue \$35,000; Salaries Expense \$13,000; Insurance Expense \$2,000; Rent Expense \$3,500; Supplies Expense \$500; and Depreciation Expense \$1,000. Prepare an income statement for the year ended December 31, 2007.
32. Prepare year-end adjustments for the following transactions. Omit explanations.
1. Accrued interest on notes receivable is \$45.
 2. \$1,000 of unearned revenues have been earned.
 3. Three years' rent, totaling \$48,000, was paid in advance at the beginning of the year.
 4. Services totaling \$2,900 had been performed but not yet billed at the end of the year.
 5. Depreciation on equipment totaled \$6,500 for the year.
 6. Supplies purchased totaled \$850. By year end, only \$175 of supplies remained.
 7. Salaries owed to employees at the end of the year total \$960

33. The Marson Company prepares monthly financial statements. Below are listed some selected accounts and their balances on the September 30 trial balance before any adjustments have been made for the month of September.

MARSON COMPANY
 Trial Balance (Selected Accounts)
 September 30, 2007

	Debit	Credit
Office Supplies		
Prepaid Insurance	\$ 2,700	
Office Equipment	5,250	
Accumulated Depreciation—Office Equipment	16,200	\$ 900
Unearned Rent Revenue		1,200

(Note: Debit column does not equal credit column because this is a partial listing of selected account balances.)

An analysis of the account balances by the company's accountant provided the following additional information:

1. A physical count of office supplies revealed \$1,200 on hand on September 30.
2. A two-year life insurance policy was purchased on June 1 for \$6,000.
3. Office equipment depreciates \$3,600 per year.
4. The amount of rent received in advance that remains unearned at September 30 is \$700.

Instructions

Using the information given, prepare the adjusting entries that should be made by the Marson Company on September 30.

34. The Speedway Insurance Agency prepares monthly financial statements. Presented below is an income statement for the month of June that is correct on the basis of information considered.

SPEEDWAY INSURANCE AGENCY
Income Statement
For the Month Ended June 30

Revenues		
Premium Commission Revenues		\$40,000
Expenses		
Salary Expense	\$12,000	
Advertising Expense	800	
Rent Expense	4,200	
Depreciation Expense	<u>2,800</u>	
Total Expenses		<u>19,800</u>
Net Income		<u>\$20,200</u>

Additional Data: When the income statement was prepared, the company accountant neglected to take into consideration the following information:

1. A utility bill for \$1,200 was received on the last day of the month for electric and gas service for the month of June.
2. A company insurance salesman sold a life insurance policy to a client for a premium of \$28,000. The agency billed the client for the policy and is entitled to a commission of 20%.
3. Supplies on hand at the beginning of the month were \$2,000. The agency purchased additional supplies during the month for \$1,500 in cash and \$2,200 of supplies were on hand at June 30.
4. The agency purchased a new car at the beginning of the month for \$18,000 cash. The car will depreciate \$4,500 per year.
5. Salaries owed to employees at the end of the month total \$5,300. The salaries will be paid on July 5.

Instructions

Prepare a corrected income statement.

35. The Retained Earnings account had a beginning balance of \$60,000 and an ending balance of \$70,000. If \$20,000 of dividends were declared and paid during the period, net income must have been
- A) \$20,000.
 - B) \$30,000.
 - C) \$10,000.
 - D) \$50,000.

Answer Key

1. A
2. B
3. A
4. C
5. A
6. C
7. D
8. A
9. C
10. (10 min.)

ANN ARNIE AND ASSOCIATES
 Trial Balance
 December 31, 2007

	<u>Debit</u>	<u>Credit</u>
Cash	\$ 18,500	
Accounts Receivable	16,000	
Office Supplies	800	
Notes Receivable	9,100	
Computer	29,000	
Computer Software	4,200	
Technical Library	3,200	
Office Furniture	15,400	
Automobiles	27,500	
Building	120,000	
Land	42,000	
Accounts Payable		\$ 23,000
Notes Payable		95,000
Common Stock		167,700
Totals	<u>\$285,700</u>	<u>\$285,700</u>

11. (10 min.)

TONE UP GYM
Trial Balance
July 31, 2007

	Debit	Credit
Cash	\$ 12,000	
Accounts Receivable	1,050	
Office Supplies	350	
Office Equipment	2,000	
Exercise Equipment	18,900	
Weight Equipment	25,000	
Building	55,400	
Accounts Payable		\$ 9,100
Notes Payable		51,000
Common Stock		65,100
Dividends	10,500	
Totals	\$125,200	\$125,200

12. (25 min.)

FLOYD COMPANY
Trial Balance
June 30, 2007

	Debit	Credit
Cash [2,600 – 180 (2)]	\$ 2,420	
Accounts Receivable [7,600 + 180 (2)]	7,780	
Supplies	600	
Equipment [8,300 + 700 (5)]	9,000	
Accounts Payable [9,766 – 251–215 (7)]		\$9,300
Common Stock		1,941
Dividends [1,500 + 300 + 300 (3)]	2,100	
Service Revenue [15,200 + 459 (6)]		15,659
Wages Expense [3,800 + 300 (4)]	4,100	
Repair Expense [1,600 – 700 (5)]	900	
Totals	\$26,900	\$26,900

13.

Cash.....	35,000	
Common Stock		35,000
Equipment	50,000	
Cash.....		15,000
Note Payable.....		35,000
Rent Expense	3,000	
Cash.....		3,000
Accounts Receivable.....	12,500	
Service Revenue.....		12,500
Wage Expense.....	7,500	
Cash.....		7,500
Cash	7,000	
Service Revenue.....		7,000
Cash	2,000	
Accounts Receivable.....		2,000

14. (5 min.)

<u>Accounts</u>	<u>Normal Balance Debit or Credit</u>
1. Service Revenue	Credit
2. Rent Expense	Debit
3. Accounts Receivable	Debit
4. Accounts Payable	Credit
5. Common Stock	Credit
6. Office Supplies	Debit
7. Insurance Expense	Debit
8. Dividends	Debit
9. Office Building	Debit
10. Notes Payable	Credit

15. The balance at the end of the month is \$10,000, calculated as follows:

Beginning accounts receivable	\$12,000
Add: Credit Sales	25,000
Less: Collections	<u>27,000</u>
Ending accounts receivable	<u>\$10,000</u>

16. (5 min.)
- | | |
|------------------------------------|-----|
| 1. Increase in accounts payable | Cr. |
| 2. Increase in accounts receivable | Dr. |
| 3. Increase in retained earnings. | Cr. |
| 4. Decrease in unearned revenue | Dr. |
| 5. Decrease in interest payable | Dr. |

17. A

18. C

19. A

20. D

21. B

22. A

23. D

24. B

25.

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

26. (5 min.)

Net Income before Adjustments (\$11,000 – 7,600)		\$ 3,400
Add: Unearned Revenues	\$2,500	
Accrued Revenues	<u>2,800</u>	<u>5,300</u>
		8,700
Subtract: Depreciation Expense	1,200	
Interest Expense	800	
Insurance Expense	<u>500</u>	<u>2,500</u>
Net Income after Adjustments		<u>\$ 6,200</u>

27. (5 min.)

Net Income before Adjustments (\$9,200 – 5,300)		\$ 3,900
Add: Unearned Revenues	\$3,400	
Accrued Revenues	<u>2,100</u>	<u>5,500</u>
		9,400
Subtract: Depreciation Expense	300	
Interest Expense	600	
Insurance Expense	<u>300</u>	<u>1,200</u>
Net Income after Adjustments		<u>\$ 8,200</u>

28. (5 min.)

1. U
2. O
3. U
4. O
5. NA
6. NA

29. (5 min.)

1. AR
2. AE
3. UR
4. PE
5. AE

30.

Interest Expense ($20,000 \times 10\% \times 1/12$)	167	
Interest Payable		167

31. (5 min.)

JESPER CORPORATION
Income Statement
For the Year Ended December 31, 2007

Revenues		
Service Revenue		\$ 35,000
Expenses		
Salaries Expense	\$13,000	
Rent Expense	3,500	
Insurance Expense	2,000	
Depreciation Expense	1,000	
Supplies Expense	<u>500</u>	
Total Expenses		<u>20,000</u>
Net Income		<u>\$15,000</u>

32. (10 min.)

1. Interest Receivable	45	
Interest Revenue		45
2. Unearned Revenues	1,000	
Revenues		1,000
3. Rent Expense	16,000	
Prepaid Rent		16,000
(\$48,000 ÷ 3 = \$16,000)		
4. Accounts Receivable	2,900	
Services Revenue		2,900
5. Depreciation Expense—Equipment	6,500	
Accumulated Depreciation—Equipment		6,500
6. Supplies Expense	675	
Supplies		675
(\$850 – \$175)		
7. Salaries Expense	960	
Salaries Payable		960

33. (10 min.)

1. Office Supplies Expense	1,500	
Office Supplies		1,500
(To record the amount of office supplies used \$2,700 – 1,200)		
2. Insurance Expense	250	
Prepaid Insurance		250
(To record insurance expired \$6,000 ÷ 24)		
3. Depreciation Expense – Office Equipment	300	
Accumulated Depreciation—Office Equipment		300
(To record monthly depreciation \$3,600 ÷ 12)		
4. Unearned Rent Revenue	500	
Rent Revenue		500
(To record rent revenue earned \$1,200 – \$700)		

34. (15 min.)

SPEEDWAY INSURANCE AGENCY
Income Statement
For the Month Ended June 30

Revenues		
Premium Commission Revenues (\$40,000 + \$5,600)		\$45,600
Expenses		
Salary Expense (\$12,000 + \$5,300)	\$17,300	
Advertising Expense	800	
Rent Expense	4,200	
Depreciation Expense (\$2,800 + \$375)	3,175	
Utilities Expense (\$0 + \$1,200)	1,200	
Supplies Expense (\$0 + \$1,300)	<u>1,300</u>	
Total expenses		<u>27,975</u>
Net Income		<u>\$17,625</u>

35. B