CHAPTER 3 THE ACCOUNTING INFORMATION SYSTEM

CHAPTER LEARNING OBJECTIVES

1. Understand basic accounting terminology.
2. Explain double-entry rules.
3. Identify steps in the accounting cycle.
4. Record transactions in journals, post to ledger accounts, and prepare a trial balance.
5. Explain the reasons for preparing adjusting entries.
6. Prepare financial statements from the adjusted trial balance.
7. Prepare closing entries.
8. Prepare financial statements for a merchandising company.
9. Differentiate the cash basis of accounting from the accrual basis of accounting.
10. Identify adjusting entries that may be reversed.
11. Prepare a 10-column worksheet.
TRUE/FALSE

1. A ledger is where the company initially records transactions and selected other events.

2. Nominal (temporary) accounts are revenue, expense, and dividend accounts and are periodically closed.

3. Real (permanent) accounts are revenue, expense, and dividend accounts and are periodically closed.

4. Under International Financial Reporting Standards (IFRS) the dividends account is considered a real account.

5. Under International Financial Reporting Standards (IFRS) the "book of original entry" is also known as the journal.

6. On the income statement, debits are used to increase account balances, whereas on the statement of financial position, credits are used to increase account balances.

7. The rules for debit and credit and the normal balance of Share Capital–Ordinary are the same as for liabilities.

8. On the income statement, revenues are increased by a debit whereas on the statement of financial position retained earnings is increased by a credit.

9. Both a corporation and a proprietorship commonly use the share capital account.

10. All liability and equity accounts are increased on the credit side and decreased on the debit side.

11. In general, debits refer to increases in account balances, and credits refer to decreases.

12. The first step in the accounting cycle is the journalizing of transactions and selected other events.

13. Basic steps in the recording process include transferring the journal information to the appropriate account in the statement of financial position.

14. The trial balance uncovers any errors in journalizing and posting prior to preparation of the statement of financial position.

15. The trial balance will not balance when a company debits two statement of financial position accounts and no income statement accounts.

16. Posting is done for income statement activity; activity related to statement of financial position does not require posting.

17. The trial balance is a listing of all the accounts and their balances in the order the accounts appear on the statement of financial position.
18. The trial balance is used to prepare statement of financial position while the general ledger is used to prepare the income statement.

19. One purpose of a trial balance is to prove that debits and credits of an equal amount are in the general ledger.

20. A general journal chronologically lists transactions and other events, expressed in terms of debits and credits to accounts.

21. If a company fails to post one of its journal entries to its general ledger, the trial balance will not show an equal amount of debit and credit balance accounts.

22. Adjusting entries for prepayments record the portion of the prepayment that represents the expense incurred or the revenue earned in the current accounting period.

23. An adjustment for salaries and wages expense, incurred but unpaid at year end, is an example of an accrued expense.

24. The book value of any depreciable asset is the difference between its cost and its salvage value.

25. A company must make adjusting entries each time it prepares an income statement and a statement of financial position.

26. Adjusting entries are often prepared after the statement of financial position date, but dated as of the statement of financial position date.

27. Adjusting entries are necessary to enable the financial statements to conform to International Financial Reporting Stanadard (IFRS).

28. Each adjusting entry affects one statement of financial position account and one income statement account.

29. A document prepared to prove the equality of debits and credits after all adjustments have been prepared is the adjusted statement of financial position.

30. Companies can prepare the income statement and the statement of financial position directly from the adjusted trial balance.

31. Debra, Inc. is preparing its annual financial statements based on its adjusted trial balance and will prepare its statement of financial position first followed by its income statement.

32. The ending retained earnings balance is reported on both the retained earnings statement and the statement of financial position.

33. The post-closing trial balance consists of asset, liability, equity, revenue and expense accounts.

34. All revenues, expenses, and the dividends account are closed through the Income Summary account.
35. It is not necessary to post the closing entries to the ledger accounts because new revenue and expense accounts will be opened in the subsequent accounting period.

36. The closing process transfers all income statement items to their related statement of financial position accounts (for example, salaries expense transfers to salaries payable).


*38. The accrual basis recognizes revenue when earned and expenses in the period when cash is paid.

*39. Reversing entries are made at the end of the accounting cycle to correct errors in the original recording of transactions.

*40. An adjusted trial balance that shows equal debit and credit columnar totals proves the accuracy of the adjusting entries.

**True / False Answers — Conceptual**

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**MULTIPLE CHOICE—Conceptual**

41. Factors that shape an accounting information system include the
   a. nature of the business.
   b. size of the firm.
   c. volume of data to be handled.
   d. All of these answers are correct.

42. An accounting record where a company initially records transactions and selected other events is called the
   a. ledger.
   b. account.
   c. trial balance.
   d. journal.
43. Which of the following is a real (permanent) account?
   a. Goodwill
   b. Sales Revenue
   c. Accounts Receivable
   d. Both Goodwill and Accounts Receivable

44. Which of the following is a nominal (temporary) account?
   a. Unearned Service Revenue
   b. Salaries and Wages Expense
   c. Inventory
   d. Retained Earnings

45. Nominal accounts are also called
   a. temporary accounts.
   b. permanent accounts.
   c. real accounts.
   d. None of these answers are correct.

46. Under International Financial Reporting Standards (IFRS) real accounts include all of the following except
   a. Dividends
   b. Assets
   c. Liabilities
   d. Equity

47. Under International Financial Reporting Standards (IFRS) the "book of original entry" is also known as the
   a. Subsidiary ledger
   b. Trial balance
   c. General ledger
   d. Journal

48. Which of the following statements is true regarding debits and credits?
   a. On the income statement, debits are used to increase account balances, whereas on the statement of financial position, credits are used to increase account balances.
   b. Before adjustments, debits will not equal credits in the trial balance.
   c. The rules for debit and credit and the normal balance of Share Capital–Ordinary are the same as for liabilities.
   d. On the income statement, revenues are increased by debit whereas on the statement of financial position retained earnings is increased by a credit.

49. Which of the following accounts is reported in the equity section of the statement of financial position?
   a. Dividends.
   b. Share Capital–Ordinary.
   c. Sales Revenue.
   d. All of the choices are reported in the equity section of the statement of financial position.
50. Revenues are
   a. Impacted by debits and credits in the same way that expenses are impacted by debits and credits.
   b. A subdivision of equity, providing information about why equity increased.
   c. Reported on the statement of financial position as a current item.
   d. All of these answers are correct.

51. Debit always means
   a. right side of an account.
   b. increase.
   c. decrease.
   d. None of these answers are correct.

52. The double-entry accounting system means
   a. Each transaction is recorded with two journal entries.
   b. Each item is recorded in a journal entry, then in a general ledger account.
   c. The dual effect of each transaction is recorded with a debit and a credit.
   d. More than one of the above.

53. When a corporation pays a note payable and interest,
   a. the account Notes Payable will be increased.
   b. the account Interest Expense will be decreased.
   c. they will debit Notes Payable and Interest Expense.
   d. they will debit Cash.

54. Equity is not affected by
   a. cash receipts.
   b. dividends.
   c. revenues.
   d. expenses.

55. The debit and credit analysis of a transaction normally takes place
   a. before an entry is recorded in a journal.
   b. when the entry is posted to the ledger.
   c. when the trial balance is prepared.
   d. at some other point in the accounting cycle.

56. The accounting equation must remain in balance
   a. throughout each step in the accounting cycle.
   b. only when journal entries are recorded.
   c. only at the time the trial balance is prepared.
   d. only when formal financial statements are prepared.

57. An optional step in the accounting cycle is the preparation of
   a. adjusting entries.
   b. closing entries.
   c. a statement of cash flows.
   d. a post-closing trial balance.
58. Basic steps in the recording process include all of the following except
   a. Transfer the journal information to the appropriate account in the statement of financial position.
   b. Analyze each transaction for its effect on the accounts.
   c. Enter the transaction information in a journal.
   d. All of these choices are correct.

59. The trial balance
   a. Proves that debits are greater than credits when the company has net income.
   b. Uncovers any errors in journalizing and posting prior to preparation of the statement of financial position.
   c. Is useful in preparing the statement of financial position.
   d. All of these choices are correct.

60. The trial balance will not balance when a company
   a. Fails to journalize a transaction.
   b. Omits posting a correct journal entry.
   c. Posts a journal entry twice.
   d. Debits two statement of financial position accounts and no income statement accounts.

61. Accounts maintained within the ledger that appear on the statement of financial position include all of the following except
   a. Salaries and Wages Expense.
   b. Interest Payable.
   c. Supplies.
   d. Share Capital–Ordinary.

62. Posting
   a. Accumulates the effects of ledger entries and transfers them to the general journal.
   b. Is done only for income statement activity; activity related to the statement of financial position does not require posting.
   c. Is done once per year.
   d. Transfers journal entries to the ledger accounts.

63. The trial balance
   a. Is a listing of all the accounts and their balances in the order the accounts appear on the statement of financial position.
   b. Has as its primary purpose to prove (check) that all journal entries were made for the period.
   c. Can be used to uncover errors in journalizing and posting.
   d. Is used to prepare the statement of financial position while the general ledger is used to prepare the income statement.

64. Numerous errors may exist even though the trial balance columns agree. Which of the following is not one of these types of errors?
   a. A transaction is not journalized.
   b. Transposition error in the amount posted as a debit.
   c. A journal entry is posted twice.
   d. A journal entry to purchase $100 worth of equipment is posted as a $1,000 purchase.
65. A trial balance may prove that debits and credits are equal, but
   a. an amount could be entered in the wrong account.
   b. a transaction could have been entered twice.
   c. a transaction could have been omitted.
   d. All of these answers are correct.

66. A general journal
   a. chronologically lists transactions and other events, expressed in terms of debits and credits.
   b. contains one record for each of the asset, liability, equity, revenue, and expense accounts.
   c. lists all the increases and decreases in each account in one place.
   d. contains only adjusting entries.

67. A journal entry to record the sale of inventory on account will include a
   a. debit to Inventory.
   b. debit to Accounts Receivable.
   c. debit to Sales Revenue.
   d. credit to Cost of Goods Sold.

68. A journal entry to record a payment on account will include a
   a. debit to Accounts Receivable.
   b. credit to Accounts Receivable.
   c. debit to Accounts Payable.
   d. credit to Accounts Payable.

69. A journal entry to record a receipt of rent revenue in advance will include a
   a. debit to Rent Revenue.
   b. credit to Rent Revenue.
   c. credit to Cash.
   d. credit to Unearned Rent Revenue.

70. Which of the following errors will cause an imbalance in the trial balance?
   a. Omission of a transaction in the journal.
   b. Posting an entire journal entry twice to the ledger.
   c. Posting a credit of $720 to Accounts Payable as a credit of $720 to Accounts Receivable.
   d. Listing the balance of an account with a debit balance in the credit column of the trial balance.

71. Which of the following is not a principal purpose of an unadjusted trial balance?
   a. It proves that debits and credits of equal amounts are in the ledger.
   b. It is the basis for any adjustments to the account balances.
   c. It supplies a listing of open accounts and their balances.
   d. It proves that debits and credits were properly entered in the ledger accounts.

72. An adjusting entry should never include
   a. a debit to an expense account and a credit to a liability account.
   b. a debit to an expense account and a credit to a revenue account.
   c. a debit to a liability account and a credit to revenue account.
   d. a debit to a revenue account and a credit to a liability account.
73. Which of the following is an example of an accrued expense?
   a. Office supplies purchased at the beginning of the year and debited to an expense account.
   b. Property taxes incurred during the year, to be paid in the first quarter of the subsequent year.
   c. Depreciation expense.
   d. Rent earned during the period, to be received at the end of the year.

74. An adjusting entry to record an accrued expense involves a debit to a(an):
   a. expense account and a credit to a prepaid expense account.
   b. expense account and a credit to Cash.
   c. expense account and a credit to a liability account.
   d. liability account and a credit to an expense account.

75. The failure to properly record an adjusting entry to accrue an expense will result in an:
   a. understatement of expenses and an understatement of liabilities.
   b. understatement of expenses and an overstatement of liabilities.
   c. understatement of expenses and an overstatement of assets.
   d. overstatement of expenses and an understatement of assets.

76. Which of the following properly describes a deferral?
   a. Cash is received after revenue is earned.
   b. Cash is received before revenue is earned.
   c. Cash is paid after expense is incurred.
   d. Cash is paid in the same time period that an expense is incurred.

77. The failure to properly record an adjusting entry to accrue a revenue item will result in an:
   a. understatement of revenues and an understatement of liabilities.
   b. overstatement of revenues and an overstatement of liabilities.
   c. overstatement of revenues and an overstatement of assets.
   d. understatement of revenues and an understatement of assets.

78. The omission of the adjusting entry to record depreciation expense will result in an:
   a. overstatement of assets and an overstatement of equity.
   b. understatement of assets and an understatement of equity.
   c. overstatement of assets and an overstatement of liabilities.
   d. overstatement of liabilities and an understatement of equity.

79. Adjustments are often prepared
   a. after the statement of financial position date, but dated as of that date.
   b. after the statement of financial position date, and dated after that date.
   c. before the statement of financial position date, but dated as of that date.
   d. before the statement of financial position date, and dated after that date.

80. At the time a company prepays a cost
   a. it debits an asset account to show the service or benefit it will receive in the future.
   b. it debits an expense account to match the expense against revenues earned.
   c. its credits a liability account to show the obligation to pay for the service in the future.
   d. More than one of these answers are correct.
81. How do these prepaid expenses expire?

- **Rent**
  a. With the passage of time
  b. Through use and consumption
- **Supplies**
  a. Through use and consumption
  b. With the passage of time

82. Recording the adjusting entry for depreciation has the same effect as recording the adjusting entry for

- a. an unearned revenue.
- b. a prepaid expense.
- c. an accrued revenue.
- d. an accrued expense.

83. Unearned revenue on the books of one company is likely to be

- a. a prepaid expense on the books of the company that made the advance payment.
- b. an unearned revenue on the books of the company that made the advance payment.
- c. an accrued expense on the books of the company that made the advance payment.
- d. an accrued revenue on the books of the company that made the advance payment.

84. To compute interest expense for an adjusting entry, the formula is \((\text{principal} \times \text{annual rate} \times \text{a fraction})\). The numerator and denominator of the fraction are:

- a. Length of time note has been outstanding
  b. Length of note
  c. Length of time until note matures
  d. Length of time note has been outstanding

85. Adjusting entries are necessary to

1. obtain a proper matching of expense to revenue.
2. achieve an accurate statement of assets and equities.
3. adjust assets and liabilities to their fair value.

- a. 1
- b. 2
- c. 3
- d. 1 and 2

86. When an item of expense is paid and recorded in advance, it is normally called a(n)

- a. prepaid expense.
- b. accrued expense.
- c. estimated expense.
- d. cash expense.

87. When an item of revenue or expense has been earned or incurred but not yet collected or paid, it is normally called a(n) ______________ revenue or expense.

- a. prepaid
- b. adjusted
- c. estimated
- d. None of these answers are correct.
88. When an item of revenue is collected and recorded in advance, it is normally called a(n) _______ revenue.
   a. accrued
   b. prepaid
   c. unearned
   d. cash

89. An accrued expense can best be described as an amount
   a. paid and currently matched with earnings.
   b. paid and not currently matched with earnings.
   c. not paid and not currently matched with earnings.
   d. not paid and currently matched with earnings.

90. If, during an accounting period, an expense item has been incurred and consumed but not yet paid for or recorded, then the end-of-period adjusting entry would involve
   a. a liability account and an asset account.
   b. an asset or contra asset account and an expense account.
   c. a liability account and an expense account.
   d. a receivable account and a revenue account.

91. Which of the following must be considered in estimating depreciation on an asset for an accounting period?
   a. The original cost of the asset
   b. Its useful life
   c. The decline of its fair value
   d. Both the original cost of the asset and its useful life.

92. Which of the following would not be a correct form for an adjusting entry?
   a. A debit to a revenue and a credit to a liability
   b. A debit to an expense and a credit to a liability
   c. A debit to a liability and a credit to a revenue
   d. A debit to an asset and a credit to a liability

93. Year-end net assets would be overstated and current expenses would be understated as a result of failure to record which of the following adjusting entries?
   a. Expiration of prepaid insurance
   b. Depreciation of fixed assets
   c. Accrued wages payable
   d. All of these answers are correct.

94. A prepaid expense can best be described as an amount
   a. paid and currently matched with revenues.
   b. paid and not currently matched with revenues.
   c. not paid and currently matched with revenues.
   d. not paid and not currently matched with revenues.

95. An accrued revenue can best be described as an amount
   a. collected and reported on the income statement.
   b. collected and not reported on the income statement.
   c. not collected and reported on the income statement.
   d. not collected and not reported on the income statement.
96. An unearned revenue can best be described as an amount
   a. collected and reported on the income statement.
   b. collected and not reported on the income statement.
   c. not collected and reported on the income statement.
   d. not collected and not reported on the income statement.

97. A company must make adjusting entries
   a. To ensure that the revenue recognition and expense recognition principles are followed.
   b. Each time it prepares an income statement and a statement of financial position.
   c. To account for accruals or deferrals.
   d. All of these choices are correct.

98. Which of the following adjustments would require decreasing the liabilities reported on the statement of financial position?
   a. A company uses $400 worth of supplies during the year.
   b. A company records $400 worth of depreciation on equipment.
   c. A company has earned $400 of revenue collected at the beginning of the year.
   d. A company records $400 of wages earned by employees that will be paid next year.

99. Adjusting entries
   a. Are often prepared after the statement of financial position date, but dated as of the statement of financial position date.
   b. Are necessary to enable the financial statements to conform to International Financial Reporting Standard (IFRS).
   c. Include both accruals and deferrals.
   d. All of the choices are correct.

100. Which of the following statements is false regarding adjusting entries?
    a. Cash is neither debited nor credited as a result of adjusting entries.
    b. Each adjusting entry affects one statement of financial position account and one income statement account.
    c. Each adjusting entry affects one revenue account and one expense account.
    d. Adjusting entries involve accruals or deferrals.

101. A document prepared to prove the equality of debits and credits after all adjustments have been prepared is the
    b. Adjusted trial balance.
    c. Adjusted financial statements.
    d. Post-closing trial balance.

102. Which of the following statements is false?
    a. Companies can prepare the income statement and the statement of financial position directly from the adjusted trial balance.
    b. Companies can prepare the statement of cash flows directly from the adjusted trial balance.
    c. The adjusted trial balance proves the equality of total debits and total credits after all adjustments.
    d. Each adjusting entry affects one statement of financial position account and one income statement account.
103. Debra, Inc. is preparing its annual financial statements based on its adjusted trial balance. Which financial statement will Debra, Inc. prepare first?
   b. Income statement.
   c. Retained earnings statement.
   d. There is no particular order, any financial statement may be prepared first once the adjusted trial balance is prepared.

104. An adjusted trial balance
   a. is prepared after the financial statements are completed.
   b. proves the equality of the total debit balances and total credit balances of ledger accounts after all adjustments have been made.
   c. is a required financial statement under international financial reporting standards.
   d. cannot be used to prepare financial statements.

105. Which type of account is always debited during the closing process?
   a. Dividends.
   b. Expense.
   c. Revenue.
   d. Retained earnings.

106. Which of the following statements best describes the purpose of closing entries?
   a. To facilitate posting and taking a trial balance.
   b. To determine the amount of net income or net loss for the period.
   c. To reduce the balances of temporary accounts to zero so that they may be used to accumulate the revenues, expenses and dividends of the next period.
   d. To complete the record of various transactions that were started in a prior period.

107. The closing process
   a. Is done each time a transaction takes place and is journalized.
   b. Transfers all income statement items to their related statement of financial position account (for example, salaries/wages expense transfers to salaries/wages payable).
   c. Posts all closing entries to the appropriate general ledger account.
   d. All of these choices are correct.

108. The closing entries
   a. Must debit or credit one income statement account and one statement of financial position account.
   b. Include closing the dividends account to income summary.
   c. Are posted to the appropriate general ledger accounts.
   d. All of these choices are correct.

109. The post-closing trial balance
   a. Consists of statement of financial position accounts only.
   b. Will balance if a transaction is not journalized and posted, or if a transaction is journalized and posted twice.
   c. Shows that the accounting equation is in balance at the end of the accounting period.
   d. All of these choices are correct.
   a. The cash-basis method of accounting is accepted.
   b. Events are recorded in the period in which the event occurs.
   c. Net income will be lower under the cash-basis than accrual-basis accounting.
   d. All of the choices are correct.

111. If ending accounts receivable exceeds the beginning accounts receivable:
   a. cash collections during the period exceed the amount of revenue recognized.
   b. net income for the period is less than the amount of cash basis income.
   c. no cash was collected during the period.
   d. cash collections during the year are less than the amount of revenue recognized.

112. Under the cash basis of accounting, revenues are recorded
   a. when they are recognized and realized.
   b. when the performance obligation is satisfied.
   c. when they are recognized.
   d. when the company receives cash.

113. When converting from cash basis to accrual basis accounting, which of the following adjustments should be made to cash receipts from customers to determine accrual basis service revenue?
   a. Subtract ending accounts receivable.
   b. Subtract beginning unearned service revenue.
   c. Add ending accounts receivable.
   d. Add cash sales.

114. When converting from cash basis to accrual basis accounting, which of the following adjustments should be made to cash paid for operating expenses to determine accrual basis operating expenses?
   a. Add beginning accrued liabilities.
   b. Subtract beginning prepaid expense.
   c. Subtract ending prepaid expense.
   d. Subtract interest expense.

115. Reversing entries are
   1. normally prepared for prepaid, accrued, and estimated items.
   2. necessary to achieve a proper matching of revenue and expense.
   3. desirable to exercise consistency and establish standardized procedures.
   a. 1
   b. 2
   c. 3
   d. 1 and 2

116. Reversing entries do not apply to which of the following items?
   a. Unearned revenue.
   b. Accrued wages.
   c. Prepaid insurance.
   d. Depreciation.
*117. Adjusting entries that should be reversed include
   a. all accrued revenues.
   b. all accrued expenses.
   c. those that debit an asset or credit a liability.
   d. All of these answers are correct.

*118. A reversing entry should never be made for an adjusting entry that
   a. accrues unrecorded revenue.
   b. adjusts expired costs from an asset account to an expense account.
   c. accrues unrecorded expenses.
   d. adjusts unexpired costs from an expense account to an asset account.

119. Reversing entries
   a. Impact the income statement only.
   b. Impact the statement of financial position and the income statement.
   d. Change amounts reported in the financial statements of the preceding period.

120. Which of the following statements regarding reversing entries is incorrect?
   a. Deferrals are generally entered in statement of financial position accounts, thus
      making reversing entries unnecessary.
   b. All accruals should be reversed.
   c. Adjusting entries for depreciation and bad debts are never reversed.
   d. Reversing entries change amounts reported in the statement of financial position for
      the previous period.

*121. The worksheet for Sharko Co. consisted of five pairs of debit and credit columns. The
dollar amount of one item appeared in both the credit column of the income statement
section and the debit column of the balance sheet section. That item is
   a. net income for the period.
   b. beginning inventory.
   c. cost of goods sold.
   d. net loss for the period.
Multiple Choice Answers—Conceptual

<table>
<thead>
<tr>
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<td>d</td>
<td>83.</td>
<td>a</td>
<td>97.</td>
<td>d</td>
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<td>d</td>
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<td>c</td>
<td>*112.</td>
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<td>d</td>
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<td>d</td>
<td>99.</td>
<td>d</td>
<td>*113.</td>
<td>c</td>
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<td>a</td>
<td>72.</td>
<td>b</td>
<td>86.</td>
<td>a</td>
<td>100.</td>
<td>c</td>
<td>*114.</td>
<td>c</td>
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<td>87.</td>
<td>d</td>
<td>101.</td>
<td>b</td>
<td>*115.</td>
<td>c</td>
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<td>60.</td>
<td>d</td>
<td>74.</td>
<td>c</td>
<td>88.</td>
<td>c</td>
<td>102.</td>
<td>b</td>
<td>*116.</td>
<td>d</td>
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<td>a</td>
<td>89.</td>
<td>d</td>
<td>103.</td>
<td>b</td>
<td>*117.</td>
<td>d</td>
<td>97.</td>
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<td>48.</td>
<td>c</td>
<td>62.</td>
<td>d</td>
<td>76.</td>
<td>b</td>
<td>90.</td>
<td>c</td>
<td>104.</td>
<td>b</td>
<td>*118.</td>
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<td>c</td>
<td>77.</td>
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<td>d</td>
<td>105.</td>
<td>c</td>
<td>*119.</td>
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<td>b</td>
<td>78.</td>
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<td>92.</td>
<td>d</td>
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<td>*120.</td>
<td>d</td>
<td>113.</td>
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<td>a</td>
<td>94.</td>
<td>b</td>
<td>108.</td>
<td>c</td>
<td></td>
<td></td>
<td>115.</td>
<td></td>
</tr>
<tr>
<td>53.</td>
<td>c</td>
<td>67.</td>
<td>b</td>
<td>81.</td>
<td>a</td>
<td>95.</td>
<td>c</td>
<td>109.</td>
<td>d</td>
<td></td>
<td></td>
<td>116.</td>
<td></td>
</tr>
<tr>
<td>54.</td>
<td>a</td>
<td>68.</td>
<td>c</td>
<td>82.</td>
<td>b</td>
<td>96.</td>
<td>b</td>
<td>110.</td>
<td>b</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Solutions to those Multiple Choice questions for which the answer is “none of these.”
51.  left or left-side.
87.  accrued.

MULTIPLE CHOICE—Computational

122.  Maso Company recorded journal entries for the issuance of ordinary shares for $50,000, the payment of $13,000 on accounts payable, and the payment of salaries and wages expense of $21,000. What net effect do these entries have on equity?
   a.  Increase of $50,000.
   b.  Increase of $37,000.
   c.  Increase of $29,000.
   d.  Increase of $16,000.

123.  Mune Company recorded journal entries for the declaration of R55,000 of dividends, the R32,000 increase in accounts receivable for services provided, and the purchase of equipment for R21,000. What net effect do these entries have on equity?
   a.  Decrease of R76,000.
   b.  Decrease of R44,000.
   c.  Decrease of R23,000.
   d.  Increase of R16,000.

124.  Pappy Corporation received cash of HK12,000 on September 1, 2015 for one year’s rent in advance and recorded the transaction with a credit to Unearned Rent Revenue. The December 31, 2015 adjusting entry is
   a.  debit Rent Revenue and credit Unearned Rent Revenue, HK4,000.
   b.  debit Rent Revenue and credit Unearned Rent Revenue, HK8,000.
   c.  debit Unearned Rent Revenue and credit Rent Revenue, HK4,000.
   d.  debit Cash and credit Unearned Rent Revenue, HK8,000.
125. Panda Corporation paid cash of Rp12,000 on June 1, 2015 for one year’s rent in advance and recorded the transaction with a debit to Prepaid Rent. The December 31, 2015 adjusting entry is
   a. debit Prepaid Rent and credit Rent Expense, Rp5,000.
   b. debit Prepaid Rent and credit Rent Expense, Rp7,000.
   c. debit Rent Expense and credit Prepaid Rent, Rp7,000.
   d. debit Prepaid Rent and credit Cash, Rp5,000.

126. Tate Company purchased equipment on November 1, 2015 and gave a 3-month, 6% note with a face value of $20,000. The December 31, 2015 adjusting entry is
   a. debit Interest Expense and credit Interest Payable, $1,200.
   b. debit Interest Expense and credit Interest Payable, $300.
   c. debit Interest Expense and credit Cash, $200.
   d. debit Interest Expense and credit Interest Payable, $200.

127. Chen Company’s account balances at December 31, 2015 for Accounts Receivable and the Allowance for Doubtful Accounts are ¥320,000 debit and $600 credit. Sales during 2015 were ¥800,000. It is estimated that 1% of sales will be uncollectible. The adjusting entry would include a credit to the allowance account for
   a. ¥8,600.
   b. ¥8,000.
   c. ¥7,400.
   d. ¥3,200.

128. Starr Corporation loaned W90,000 to another corporation on December 1, 2015 and received a 3-month, 6% interest-bearing note with a face value of W90,000. What adjusting entry should Starr make on December 31, 2015?
   a. Debit Interest Receivable and credit Interest Revenue, W1,350.
   b. Debit Cash and credit Interest Revenue, W450.
   c. Debit Interest Receivable and credit Interest Revenue, W450.
   d. Debit Cash and credit Interest Receivable, W1,350.

Use the following information for questions 129 and 130:
A company receives interest on a ¥30,000,000, 6%, 5-year note receivable each April 1. At December 31, 2014, the following adjusting entry was made to accrue interest receivable:
   Interest Receivable ........................................ 1,350,000
   Interest Revenue ......................................... 1,350,000

129. Assuming that the company does not use reversing entries, what entry should be made on April 1, 2015 when the annual interest payment is received?
   a. Cash .................................................. 450,000
      Interest Revenue ...................................... 450,000
   b. Cash .................................................. 1,350,000
      Interest Receivable .................................. 1,350,000
   c. Cash .................................................. 1,800,000
      Interest Receivable .................................. 1,350,000
      Interest Revenue .................................... 450,000
   d. Cash .................................................. 1,800,000
      Interest Revenue .................................... 1,800,000
*130. Assuming that the company uses reversing entries, what entry should be made on April 1, 2015 when the annual interest payment is received?
   a. Cash ......................................... 450,000
      Interest Revenue .................................. 450,000
   b. Cash ......................................... 1,350,000
      Interest Receivable ................................ 1,350,000
   c. Cash ......................................... 1,800,000
      Interest Receivable ................................ 1,350,000
      Interest Revenue .................................. 450,000
   d. Cash ......................................... 1,800,000
      Interest Revenue .................................. 1,800,000

131. Murphy Company sublet a portion of its warehouse for five years at an annual rental of $30,000, beginning on May 1, 2015. The tenant, Sheri Charter, paid one year’s rent in advance, which Murphy recorded as a credit to Unearned Rent Revenue. Murphy reports on a calendar-year basis. The adjustment on December 31, 2015 for Murphy should be
   a. No entry
   b. Unearned Rent Revenue .......................... 10,000
      Rent Revenue ...................................... 10,000
   c. Rent Revenue ................................. 10,000
      Unearned Rent Revenue ......................... 10,000
   d. Unearned Rent Revenue .......................... 20,000
      Rent Revenue ...................................... 20,000

132. During the first year of Wilkinson Co.’s operations, all purchases were recorded as assets. Supplies in the amount of $19,350 were purchased. Actual year-end supplies amounted to $5,450. The adjusting entry for supplies will
   a. increase net income by $13,900.
   b. increase expenses by $13,900.
   c. decrease supplies by $5,450.
   d. debit Accounts Payable for $5,450.

133. Cara, Inc. purchased supplies costing TL2,500 on January 1, 2015 and recorded the transaction by increasing assets. At the end of the year TL1,000 of the supplies are still on hand. How will the adjusting entry impact Cara, Inc.’s statement of financial position at December 31, 2015?
   a. Decrease Assets TL1,000.
   b. Increase Equity TL1,000.
   c. Increase Liabilities TL1,500.
   d. Decrease Assets TL1,500.

134. Cara, Inc. purchased supplies costing TL2,500 on January 1, 2015 and recorded the transaction by increasing assets. At the end of the year TL1,000 of the supplies are still on hand. If Cara, Inc. does not make the appropriate adjusting entry, what is the impact on its statement of financial position at December 31, 2015?
   a. Assets overstated by TL1,500.
   b. Equity understated by TL1,500.
   c. Equity overstated by TL1,000.
   d. Assets overstated by TL1,000.
135. Cara, Inc. purchased a building on January 1, 2015 for CHF700,000. The useful life of the building is 10 years. What impact will the appropriate adjusting entry at December 31, 2015 have on its statement of financial position at December 31, 2015?
   a. Increase Equity CHF70,000.
   b. Increase Liabilities CHF70,000.
   c. Decrease Assets CHF70,000.
   d. Since the adjusting entry has offsetting debits and credits, there is no impact on the statement of financial position.

136. Cara, Inc. purchased a building on January 1, 2015 for CHF700,000. The useful life of the building is 10 years. The asset is reported on the December 31, 2015 statement of financial position at CHF630,000. What was the impact of the adjusting entry recorded by Cara, Inc.?
   a. Decrease Equity CHF70,000.
   b. Increase Liabilities CHF70,000.
   c. Increase Assets CHF70,000.
   d. All of the choices are correct regarding the impact of Cara, Inc.’s adjusting entry at December 31, 2015.

137. Wave Inn is a resort located in Canada. Wave Inn collects cash when guests make a reservation. During December 2015, Wave Inn collected $90,000 of cash and recorded the receipt by recognizing unearned revenue. By the end of the month Wave Inn had earned one third of this amount, the other two thirds will be earned during January 2016. The adjusting entry required at December 31, 2015 would impact the statement of financial position by
   a. Increasing Equity $60,000.
   b. Decreasing Liabilities $30,000.
   c. Increasing Assets $90,000.
   d. Decreasing Equity $30,000.

138. Wave Inn is a resort located in Canada. During December 2015, Spin Jammers held its annual conference at the resort. The charges related to the conference total $440,000, of which 25% has been paid by Spin Jammers. Assuming Wave Inn fails to make the appropriate adjusting entry, which of the following is true regarding Wave Inn’s December 31, 2015 statement of financial position?
   a. Equity is overstated by $330,000.
   b. Equity is understated by $110,000.
   c. Assets are understated by $330,000.
   d. Assets are overstated by $110,000.

139. Wave Inn is a resort located in Canada. During December 2015, Spin Jammers held its annual conference at the resort. The charges related to the conference total $440,000, of which 25% has been paid by Spin Jammers. Assuming Spin Jammers fails to make the appropriate adjusting entry, which of the following is true regarding its December 31, 2015 statement of financial position?
   a. Equity is overstated by $330,000.
   b. Equity is understated by $110,000.
   c. Liabilities are overstated by $330,000.
   d. Liabilities are overstated by $110,000.
140. Bread Basket provides baking supplies to restaurants and grocery stores. During December 2015, Bread Basket’s employees worked 1,200 hours at an average rate of R20 per hour. At December 31, 2015, Bread Basket has paid R10,000 of salary expense. If Bread Basket fails to make the appropriate adjusting entry, which of the following is true regarding its December 31, 2015 statement of financial position?
   a. Equity is overstated by R10,000.
   b. Equity is overstated by R14,000.
   c. Liabilities are overstated by R14,000.
   d. Liabilities are overstated by R10,000.

141. Bread Basket provides baking supplies to restaurants and grocery stores. On November 1, 2015, Bread Basket signed a R500,000, 6-month note payable. The note requires Bread Basket to pay interest at an annual rate of 9%. Assuming Bread Basket makes the appropriate adjusting entry, what is the impact on its December 31, 2015 statement of financial position?
   a. An expense of R22,500.
   b. An expense of R7,500.
   c. A liability of R7,500.
   d. None of these answers are correct.

142. Wave Inn is a resort located in Canada. During December 2015, Spin Jammers held its annual conference at the resort. The charges related to the conference total $360,000, of which 25% has been paid by Spin Jammers. When Wave Inn makes the appropriate adjusting entry, which of the following is part of the adjustment made on December 31, 2015?
   a. Debit Cash $270,000.
   b. Credit revenue $270,000.
   c. Credit Cash $270,000.
   d. Two of these choices are correct.

143. Big-Mouth Frog Corporation had revenues of $210,000, expenses of $120,000, and dividends of $30,000. When Income Summary is closed to Retained Earnings, the amount of the debit or credit to Retained Earnings is a
   a. debit of $60,000.
   b. debit of $90,000.
   c. credit of $60,000.
   d. credit of $90,000.
Use the following information for questions 144 through 146:

The income statement of Dolan Corporation for 2015 included the following items:

<table>
<thead>
<tr>
<th>Item</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Interest revenue</td>
<td>€55,500</td>
</tr>
<tr>
<td>Salaries and wages expense</td>
<td>95,000</td>
</tr>
<tr>
<td>Insurance expense</td>
<td>9,600</td>
</tr>
</tbody>
</table>

The following balances have been excerpted from Dolan Corporation’s statement of financial position:

<table>
<thead>
<tr>
<th></th>
<th>December 31, 2015</th>
<th>December 31, 2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>Accrued interest receivable</td>
<td>€9,100</td>
<td>€7,500</td>
</tr>
<tr>
<td>Accrued salaries and wages payable</td>
<td>8,900</td>
<td>4,200</td>
</tr>
<tr>
<td>Prepaid insurance</td>
<td>1,100</td>
<td>1,500</td>
</tr>
</tbody>
</table>

*144. The cash received for interest during 2015 was
a. €46,400.
b. €53,900.
c. €55,500.
d. €57,100.

*145. The cash paid for salaries and wages during 2015 was
a. €99,700.
b. €90,300.
c. €90,800.
d. €103,900.

*146. The cash paid for insurance premiums during 2015 was
a. €8,500.
b. €8,100.
c. €10,000.
d. €9,200.

Use the following information for questions 147 through 149:

Olsen Company paid or collected during 2015 the following items:

<table>
<thead>
<tr>
<th>Item</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Insurance premiums paid</td>
<td>$12,400</td>
</tr>
<tr>
<td>Interest collected</td>
<td>43,900</td>
</tr>
<tr>
<td>Salaries and wages paid</td>
<td>110,200</td>
</tr>
</tbody>
</table>

The following balances have been excerpted from Olsen's statement of financial position:

<table>
<thead>
<tr>
<th></th>
<th>December 31, 2015</th>
<th>December 31, 2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>Prepaid insurance</td>
<td>$1,200</td>
<td>$1,500</td>
</tr>
<tr>
<td>Interest receivable</td>
<td>3,700</td>
<td>2,900</td>
</tr>
<tr>
<td>Salaries and wages payable</td>
<td>12,300</td>
<td>10,600</td>
</tr>
</tbody>
</table>

*147. The insurance expense on the income statement for 2015 was
a. $9,700.
b. $12,100.
c. $12,700.
d. $15,100.
*148. The interest revenue on the income statement for 2015 was
   a. $37,300.
   b. $43,100.
   c. $44,700.
   d. $50,500.

*149. The salaries and wages expense on the income statement for 2015 was
   a. $87,300.
   b. $108,500.
   c. $111,900.
   d. $133,100.

*150. The Supplies account had a balance at the beginning of year 3 of £4,000 (before the reversing entry). Payments for purchases of supplies during year 3 amounted to £25,000 and were recorded as expense. A physical count at the end of year 3 revealed supplies costing £5,750 were on hand. Reversing entries are used by this company. The required adjusting entry at the end of year 3 will include a debit to:
   a. Supplies Expense for £1,750.
   b. Supplies for £1,750.
   c. Supplies Expense for £23,250.
   d. Supplies for £5,750.

*151. At the end of 2015, Diego Company made four adjusting entries for the following items:
   1. Depreciation expense, R$25,000.
   2. Expired insurance, R$2,200 (originally recorded as prepaid insurance.)
   3. Interest payable, R$6,000.
   4. Rent receivable, R$10,000.
   In the normal situation, to facilitate subsequent entries, the adjusting entry or entries that may be reversed is (are)
   a. Entry No. 3.
   b. Entry No. 4.
   c. Entry No. 3 and No. 4.
   d. Entry No. 2, No. 3 and No. 4.

*152. Garcia Corporation received cash of R$24,000 on August 1, 2015 for one year's rent in advance and recorded the transaction with a credit to Rent Revenue. The December 31, 2015 adjusting entry is
   a. debit Rent Revenue and credit Unearned Rent Revenue, R$10,000.
   b. debit Rent Revenue and credit Unearned Rent Revenue, R$14,000.
   c. debit Unearned Rent Revenue and credit Rent Revenue, R$10,000.
   d. debit Cash and credit Unearned Rent Revenue, R$14,000.

*153. Low Company received HK$9,600 on April 1, 2015 for one year's rent in advance and recorded the transaction with a credit to a nominal account. The December 31, 2015 adjusting entry is
   a. debit Rent Revenue and credit Unearned Rent Revenue, HK$2,400.
   b. debit Rent Revenue and credit Unearned Rent Revenue, HK$7,200.
   c. debit Unearned Rent Revenue and credit Rent Revenue, HK$2,400.
   d. debit Unearned Rent Revenue and credit Rent Revenue, HK$7,200.
*154. Ghiou Company paid €4,800 on June 1, 2015 for a two-year insurance policy and recorded the entire amount as Insurance Expense. The December 31, 2015 adjusting entry is
   a. debit Insurance Expense and credit Prepaid Insurance, €1,400.
   b. debit Insurance Expense and credit Prepaid Insurance, €3,400.
   c. debit Prepaid Insurance and credit Insurance Expense, €1,400.
   d. debit Prepaid Insurance and credit Insurance Expense, €3,400.

155. On September 1, 2014, Loo Co. issued a note payable to National Bank in the amount of HK$600,000, bearing interest at 9%, and payable in three equal annual principal payments of HK$200,000. On this date, the bank's prime rate was 8%. The first payment for interest and principal was made on September 1, 2015. At December 31, 2015, Lowe should record accrued interest payable of
   a. HK$18,000.
   b. HK$16,000.
   c. HK$12,000.
   d. HK$10,667.

156. Eaton Co. sells major household appliance service contracts for cash. The service contracts are for a one-year, two-year, or three-year period. Cash receipts from contracts are credited to Unearned Service Revenue. This account had a balance of €2,700,000 at December 31, 2015 before year-end adjustment. Service contract costs are charged as incurred to the Service Contract Expense account, which had a balance of €675,000 at December 31, 2015.

Service contracts still outstanding at December 31, 2015 expire as follows:

<table>
<thead>
<tr>
<th>Year</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>2016</td>
<td>€570,000</td>
</tr>
<tr>
<td>2017</td>
<td>855,000</td>
</tr>
<tr>
<td>2018</td>
<td>525,000</td>
</tr>
</tbody>
</table>

What amount should be reported as Unearned Service Revenue in Eaton's December 31, 2015 statement of financial position?
   a. €2,025,000.
   b. €1,950,000.
   c. €1,275,000.
   d. €750,000.

157. In November and December 2015, Lane Co., a newly organized magazine publisher, received €180,000 for 2,000 three-year subscriptions at €30 per year, starting with the January 2016 issue. Lane included the entire €180,000 in its 2015 income tax return. What amount should Lane report in its 2015 income statement for subscriptions revenue?
   a. €0.
   b. €10,000.
   c. €60,000.
   d. €180,000.
158. On June 1, 2015, Nott Corp. loaned Horn £500,000 on a 12% note, payable in five annual installments of £100,000 beginning January 2, 2016. In connection with this loan, Horn was required to deposit £8,000 in a noninterest-bearing escrow account. The amount held in escrow is to be returned to Horn after all principal and interest payments have been made. Interest on the note is payable on the first day of each month beginning July 1, 2015. Horn made timely payments through November 1, 2015. On January 2, 2016, Nott received payment of the first principal installment plus all interest due. At December 31, 2015, Nott's interest receivable on the loan to Horn should be
   a. £0.
   b. £5,000.
   c. £10,000.
   d. £15,000.

159. Allen Corp.’s liability account balances at June 30, 2015 included a 10% note payable. The £3,000,000 note was dated October 1, 2013 and is payable in three equal annual payments of £1,000,000 plus interest. The first interest and principal payment was made on October 1, 2014. In Allen’s June 30, 2015 statement of financial position, what amount should be reported as accrued interest payable for this note?
   a. £225,000.
   b. £150,000.
   c. £75,000.
   d. £50,000.

160. Colaw Co. pays all salaried employees on a biweekly basis. Overtime pay, however, is paid in the next biweekly period. Colaw accrues salaries expense only at its December 31 year end. Data relating to salaries earned in December 2015 are as follows:
   Last payroll was paid on 12/26/15, for the 2-week period ended 12/26/15.
   Overtime pay earned in the 2-week period ended 12/26/15 was R$15,000.
   Remaining work days in 2015 were December 29, 30, 31, on which days there was no overtime.
   The recurring biweekly salaries total R$270,000.
   Assuming a five-day work week, Colaw should record a liability at December 31, 2015 for accrued salaries of
   a. R$81,000.
   b. R$96,000.
   c. R$162,000.
   d. R$177,000.

161. Tolan Corp.’s trademark was licensed to Eddy Co. for royalties of 15% of sales of the trademarked items. Royalties are payable semiannually on March 15 for sales in July through December of the prior year, and on September 15 for sales in January through June of the same year. Tolan received the following royalties from Eddy:

<table>
<thead>
<tr>
<th></th>
<th>March 15</th>
<th>September 15</th>
</tr>
</thead>
<tbody>
<tr>
<td>2014</td>
<td>R$5,000</td>
<td>R$7,500</td>
</tr>
<tr>
<td>2015</td>
<td>6,000</td>
<td>8,500</td>
</tr>
</tbody>
</table>

Eddy estimated that sales of the trademarked items would total R$40,000 for July through December 2015. In Tolan’s 2015 income statement, the royalty revenue should be
   a. R$14,500.
   b. R$16,000.
   c. R$20,500.
   d. R$22,000.
162. At December 31, 2015, Suo’s Boutique had 2,000 gift certificates outstanding, which had been sold to customers during 2015 for €50 each. Sue’s operates on a gross margin of 60% of its sales. What amount of revenue pertaining to the 2,000 outstanding gift certificates should be deferred at December 31, 2015?

a. €0.  
b. €40,000.  
c. €60,000.  
d. €100,000.

*163. Compared to the accrual basis of accounting, the cash basis of accounting overstates income by the net increase during the accounting period of the

<table>
<thead>
<tr>
<th>Accounts Receivable</th>
<th>Accrued Expenses Payable</th>
</tr>
</thead>
<tbody>
<tr>
<td>a. No</td>
<td>No</td>
</tr>
<tr>
<td>b. No</td>
<td>Yes</td>
</tr>
<tr>
<td>c. Yes</td>
<td>No</td>
</tr>
<tr>
<td>d. Yes</td>
<td>Yes</td>
</tr>
</tbody>
</table>

*164. Gregg Corp. reported revenue of Rp2,200,000 in its accrual basis income statement for the year ended June 30, 2015. Additional information was as follows:

<table>
<thead>
<tr>
<th>Accounts receivable June 30, 2014</th>
<th>Rp 700,000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Accounts receivable June 30, 2015</td>
<td>1,060,000</td>
</tr>
<tr>
<td>Uncollectible accounts written off during the fiscal year</td>
<td>26,000</td>
</tr>
</tbody>
</table>

Under the cash basis, Gregg should report revenue of

a. Rp 1,374,000.  
b. Rp 1,400,000.  
c. Rp 1,814,000.  
d. Rp 1,866,000.

*165. Jim Yount, M.D., keeps his accounting records on the cash basis. During 2015, Dr. Yount collected Rp 460,000 from his patients. At December 31, 2014, Dr. Yount had accounts receivable of Rp 50,000. At December 31, 2015, Dr. Yount had accounts receivable of Rp 70,000 and unearned revenue of Rp 10,000. On the accrual basis, how much was Dr. Yount's patient service revenue for 2015?

a. Rp 410,000.  
b. Rp 470,000.  
c. Rp 480,000.  
d. Rp 490,000.

*166. The following information is available for Ace Company for 2015:

<table>
<thead>
<tr>
<th>Disbursements for purchases</th>
<th>$1,150,000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Increase in trade accounts payable</td>
<td>75,000</td>
</tr>
<tr>
<td>Decrease in merchandise inventory</td>
<td>30,000</td>
</tr>
</tbody>
</table>

Costs of goods sold for 2015 was

a. $1,255,000.  
b. $1,195,000.  
c. $1,105,000.  
d. $1,045,000.
EXERCISES

Ex. 3-167—Definitions.

Provide clear, concise answers for the following.

1. What is the accrual basis of accounting?
2. What is an accrued expense?
3. What is accrued revenue?
4. What is a prepaid expense?
5. What is unearned revenue?
6. State the rule that indicates which adjusting entries for prepaid and unearned items should be reversed.

Solution 3-167

1. The accrual basis of accounting recognizes revenue when the performance obligation will be satisfied and recognizes expenses in the period incurred.
2. An accrued expense is incurred, but will be paid in the future.
3. Accrued revenue is earned, but will be collected in the future.
4. A prepaid expense is paid, but will be incurred in the future.
5. Unearned revenue is collected, but in the performance obligation will be satisfied in the future.
6. Adjusting entries that create an asset or a liability account should be reversed. This would include prepaid and unearned items originally recorded in a revenue or expense account.
Ex. 3-168—Terminology.

In the space provided at the right, write the word or phrase that is defined or indicated.

1. Revenue, expense and dividend accounts.
   1. __________________________________

   2. __________________________________

3. A revenue collected, but not earned.
   3. __________________________________

4. A revenue recognized, but not collected.
   4. __________________________________

5. Asset, liability, and equity accounts.
   5. __________________________________

6. An expense paid, but not incurred.
   6. __________________________________

7. An expense incurred, but not paid.
   7. __________________________________

Solution 3-168

1. Nominal (temporary) accounts.
   5. Real (permanent) accounts.

2. Reversing entries.
   6. Prepaid expense.

3. Unearned revenue.
   7. Accrued expense.

4. Accrued revenue.

Ex. 3-169—Accrued items and deferred (unearned or prepaid) items.

International financial reporting standards require the use of accruals and deferrals in the determination of income. How is income determined under the accrual basis of accounting? Include in your answer what constitutes an accrued item and a deferred (prepaid) item, and give appropriate examples of each.

Solution 3-169

Accrual accounting recognizes and reports the effects of transactions and other events in the time periods to which they relate rather than only when cash is received or paid. Accrual accounting attempts to match revenues and the expenses associated with those revenues in order to determine net income for an accounting period.

An accrued item is an item of revenue or expense that has been recognized or incurred during the period, but has not yet been collected or paid in cash. An example of an accrued revenue is rent for the last month of an accounting period that has been recognized by a landlord but not yet paid by the tenant. An example of an accrued expense is salaries incurred for the last week of an accounting period that are not payable until the subsequent accounting period.

A deferred (unearned or prepaid) item is an item of revenue or expense that has been received or paid in cash, but has not yet been recognized or consumed. An example of a deferred revenue is unearned subscription revenue collected in advance of being earned. An example of a deferred expense is an insurance premium paid at the end of an accounting period which will provide insurance coverage for the first six months of the subsequent period.Ex. 3-170—Adjusting entries.
Present, in journal form, the adjustments that would be made on July 31, 2015, the end of the fiscal year, for each of the following.

1. Supplies were €7,350 on August 1, 2014. Supplies costing €20,150 were acquired during the year and debited to Supplies. A count on July 31, 2015 indicated supplies on hand of €6,810.

2. On April 30, a ten-month, 9% note for €20,000 was received from a customer.

*3. On March 1, €18,000 was collected as rent for one year and a nominal account was credited.

**Solution 3-170**

1. Supplies Expense .......................................................... 20,690
   Supplies ................................................................. 20,690

2. Interest Receivable .......................................................... 450
   Interest Revenue .......................................................... 450

*3. Rent Revenue ............................................................. 10,500
   Unearned Rent Revenue ............................................. 10,500

**Ex. 3-171—Adjusting entries.**

Reed Co. wishes to enter receipts and payments in such a manner that adjustments at the end of the period will not require reversing entries at the beginning of the next period. Record the following transactions in the desired manner and give the adjusting entry on December 31, 2015.

(Two entries for each part.)

1. An insurance policy for two years was acquired on April 1, 2015 for $12,000.

2. Rent of $15,000 for six months for a portion of the building was received on November 1, 2015.

**Solution 3-171**

1. Prepaid Insurance .......................................................... 12,000
   Cash ................................................................. 12,000
   Insurance Expense .................................................... 4,500
   Prepaid Insurance .................................................... 4,500

2. Cash ................................................................. 15,000
   Unearned Rent Revenue ............................................. 15,000
   Unearned Rent Revenue ............................................. 5,000
   Rent Revenue .......................................................... 5,000
Ex. 3-172

The adjusted trial balance of Ryan Financial Planners appears below. Using the information from the adjusted trial balance, you are to prepare for the month ending December 31:

1. an income statement.
2. a retained earnings statement.
3. a statement of financial position.

RYAN FINANCIAL PLANNERS
Adjusted Trial Balance
December 31, 2015

<table>
<thead>
<tr>
<th>Account</th>
<th>Debit</th>
<th>Credit</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash</td>
<td>€ 5,200</td>
<td></td>
</tr>
<tr>
<td>Accounts Receivable</td>
<td></td>
<td>€ 2,200</td>
</tr>
<tr>
<td>Supplies</td>
<td></td>
<td>€ 1,800</td>
</tr>
<tr>
<td>Equipment</td>
<td></td>
<td>€ 15,000</td>
</tr>
<tr>
<td>Accumulated Depreciation—Equipment</td>
<td></td>
<td>€ 4,000</td>
</tr>
<tr>
<td>Accounts Payable</td>
<td></td>
<td>€ 3,800</td>
</tr>
<tr>
<td>Unearned Revenue</td>
<td></td>
<td>€ 5,000</td>
</tr>
<tr>
<td>Share Capital—Ordinary</td>
<td></td>
<td>€ 10,000</td>
</tr>
<tr>
<td>Retained Earnings</td>
<td></td>
<td>€ 4,400</td>
</tr>
<tr>
<td>Dividends</td>
<td>€ 2,500</td>
<td></td>
</tr>
<tr>
<td>Service Revenue</td>
<td></td>
<td>€ 4,500</td>
</tr>
<tr>
<td>Supplies Expense</td>
<td></td>
<td>€ 600</td>
</tr>
<tr>
<td>Depreciation Expense</td>
<td></td>
<td>€ 2,500</td>
</tr>
<tr>
<td>Rent Expense</td>
<td></td>
<td>€ 1,900</td>
</tr>
<tr>
<td></td>
<td>€31,700</td>
<td>€31,700</td>
</tr>
</tbody>
</table>
1. RYAN FINANCIAL PLANNERS
   Income Statement
   For the Month Ended December 31, 2015

<table>
<thead>
<tr>
<th>Revenues</th>
<th>€ 4,500</th>
</tr>
</thead>
<tbody>
<tr>
<td>Service revenue</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Expenses</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Depreciation expense</td>
<td>€ 2,500</td>
</tr>
<tr>
<td>Rent expense</td>
<td>1,900</td>
</tr>
<tr>
<td>Supplies expense</td>
<td>600</td>
</tr>
<tr>
<td>Total expenses</td>
<td>5,000</td>
</tr>
<tr>
<td>Net loss</td>
<td>€ (500)</td>
</tr>
</tbody>
</table>

2. RYAN FINANCIAL PLANNERS
   Retained Earnings Statement
   For the Month Ended December 31, 2015

<table>
<thead>
<tr>
<th>Retained earnings, December 1</th>
<th>€ 4,400</th>
</tr>
</thead>
<tbody>
<tr>
<td>Less: Net loss</td>
<td>€ 500</td>
</tr>
<tr>
<td>Dividends</td>
<td>2,500</td>
</tr>
<tr>
<td>Retained earnings, December 31</td>
<td>$1,400</td>
</tr>
</tbody>
</table>

3. RYAN FINANCIAL PLANNERS
   Statement of Financial Position
   December 31, 2015

<table>
<thead>
<tr>
<th>Assets</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Equipment</td>
<td>€ 15,000</td>
</tr>
<tr>
<td>Less: Accumulated depreciation—equipment</td>
<td>4,000</td>
</tr>
<tr>
<td>Supplies</td>
<td>1,800</td>
</tr>
<tr>
<td>Accounts receivable</td>
<td>2,200</td>
</tr>
<tr>
<td>Cash</td>
<td>€ 5,200</td>
</tr>
<tr>
<td>Total assets</td>
<td>€20,200</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Equity and Liabilities</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Equity</td>
<td></td>
</tr>
<tr>
<td>Share capital—ordinary</td>
<td>€ 10,000</td>
</tr>
<tr>
<td>Retained earnings</td>
<td>1,400</td>
</tr>
<tr>
<td>Total equity</td>
<td>€11,400</td>
</tr>
<tr>
<td>Liabilities</td>
<td></td>
</tr>
<tr>
<td>Accounts payable</td>
<td>3,800</td>
</tr>
<tr>
<td>Unearned revenue</td>
<td>5,000</td>
</tr>
<tr>
<td>Total liabilities</td>
<td>8,800</td>
</tr>
<tr>
<td>Total equity and liabilities</td>
<td>€20,200</td>
</tr>
</tbody>
</table>
Contrast the cash basis of accounting with the accrual basis of accounting.

*Solution 3-173

The essential difference between the cash basis and the accrual basis of accounting relates to the timing of the recognition of revenues and expenses. Under the cash basis of accounting, the effects of transactions and other events are recognized and reported only when cash is received or paid. Under the accrual basis of accounting, these effects are recognized and reported in the time periods to which they relate, regardless of the time of the receipt or payment of cash. Because no attempt is made under the cash basis of accounting to match revenues and the expenses associated with those revenues, cash basis financial statements are not in accordance with international financial reporting standards.

*Ex. 3-174—Accrual basis.

Sales salaries paid during 2015 were €70,000. Advances to salesmen were €1,100 on January 1, 2015, and €800 on December 31, 2015. Sales salaries accrued were €1,360 on January 1, 2015, and €1,380 on December 31, 2015. Show the computation of sales salaries on an accrual basis for 2015.

*Solution 3-174

€70,000 + €1,100 – €800 – €1,360 + €1,380 = €70,320.

*Ex. 3-175—Accrual basis.

The records for Todd Inc. showed the following for 2015:

<table>
<thead>
<tr>
<th>Jan. 1</th>
<th>Dec. 31</th>
</tr>
</thead>
<tbody>
<tr>
<td>Accrued expenses</td>
<td>R$1,800</td>
</tr>
<tr>
<td>Prepaid expenses</td>
<td>720</td>
</tr>
<tr>
<td>Cash paid during the year for expenses, R$55,500</td>
<td></td>
</tr>
</tbody>
</table>

Show the computation of the amount of expense that should be reported on the income statement.

*Solution 3-175

R$55,500 – R$1,800 + R$2,150 + R$720 – R$870 = R$55,700.
The records for Kiley Company showed the following for 2015:

<table>
<thead>
<tr>
<th></th>
<th>Jan. 1</th>
<th>Dec. 31</th>
</tr>
</thead>
<tbody>
<tr>
<td>Unearned revenue</td>
<td>HK$1,600</td>
<td>HK$2,160</td>
</tr>
<tr>
<td>Accrued revenue</td>
<td>1,260</td>
<td>920</td>
</tr>
<tr>
<td>Cash collected during the year for revenue</td>
<td>HK$75,000</td>
<td></td>
</tr>
</tbody>
</table>

Show the computation of the amount of revenue that should be reported on the income statement.

*Solution 3-176

\[
HK$75,000 + HK$1,600 - HK$2,160 - HK$1,260 + HK$920 = HK$74,100. 
\]

Revenue on the income statement was $135,800. Accounts receivable were $4,500 on January 1 and $3,540 on December 31. Unearned revenue was $1,050 on January 1 and $1,670 on December 31.

Show the computation of revenue for the year on a cash basis.

*Solution 3-177

\[
$135,800 + $4,500 - $3,540 - $1,050 + $1,670 = $137,380. 
\]

PROBLEMS

Pr. 3-178—Adjusting entries and account classification.

Selected amounts from Trent Company’s trial balance of 12/31/15 appear below:

1. Accounts Payable  € 190,000
2. Accounts Receivable  150,000
3. Accumulated Depreciation—Equipment  200,000
4. Allowance for Doubtful Accounts  20,000
5. Bonds Payable  500,000
6. Cash  150,000
7. Equipment  840,000
8. Insurance Expense  30,000
9. Interest Expense  10,000
10. Inventory  300,000
11. Notes Payable (due 6/1/16)  200,000
12. Prepaid Rent  180,000
13. Retained Earnings  818,000
14. Salaries and Wages Expense  328,000
15. Share Capital—Ordinary  60,000

(All of the above accounts have their standard or normal debit or credit balance.)
Part A. Prepare adjusting journal entries at year end, December 31, 2015, based on the following supplemental information.

a. The equipment has a useful life of 20 years with no salvage value. (Straight-line method being used.)
b. Interest accrued on the bonds payable is €15,000 as of 12/31/15.
c. Expired insurance at 12/31/15 is €12,000.
d. The rent payment of €180,000 covered the six months from November 30, 2015 through May 31, 2016.
e. Salaries and wages incurred but unpaid at 12/31/15, €22,000.

Part B. Indicate the proper statement of financial position classification of each of the 15 numbered accounts in the 12/31/15 trial balance before adjustments by placing appropriate numbers after each of the following classifications. If the account title would appear on the income statement, do not put the number in any of the classifications.

a. Property, plant, and equipment
b. Current assets
c. Equity
d. Non-current liabilities
e. Current liabilities

Solution 3-178

Part A.

a. Depreciation Expense—Equipment (€840,000 - 0) ÷ 20 ............... 42,000
   Accumulated Depreciation—Equipment .................................. 42,000

b. Interest Expense ............................................................... 15,000
   Interest Payable ............................................................... 15,000

c. Prepaid Insurance .............................................................. 18,000
   Insurance Expense (€30,000 - €12,000) ................................. 18,000

d. Rent Expense (€180,000 ÷ 6)............................................... 30,000
   Prepaid Rent ........................................................................ 30,000

e. Salaries and Wages Expense ................................................ 22,000
   Salaries and Wages Payable .................................................. 22,000

Part B.

a. Property, plant, and equipment—3, 7
b. Current assets—2, 4, 6, 10, 12
c. Equity—13, 15
d. Non-current liabilities—5
e. Current liabilities—1, 11
Pr. 3-179—Adjusting entries.

Data relating to the balances of various accounts affected by adjusting or closing entries appear below. (The entries which caused the changes in the balances are not given.) You are asked to supply the missing journal entries which would logically account for the changes in the account balances.

1. Interest receivable at 1/1/15 was £1,000. During 2015 cash received from debtors for interest on outstanding notes receivable amounted to £5,000. The 2015 income statement showed interest revenue in the amount of £6,400. You are to provide the missing adjusting entry that must have been made, assuming reversing entries are not made.

2. Unearned rent at 1/1/15 was £5,300 and at 12/31/15 was £8,000. The records indicate cash receipts from rental sources during 2015 amounted to £40,000, all of which was credited to the Unearned Rent Account. You are to prepare the missing adjusting entry.

3. Accumulated depreciation—equipment at 1/1/15 was £230,000. At 12/31/15 the balance of the account was £270,000. During 2015, one piece of equipment was sold. The equipment had an original cost of £60,000 and was 3/4 depreciated when sold. You are to prepare the missing adjusting entry.

4. Allowance for doubtful accounts on 1/1/15 was £50,000. The balance in the allowance account on 12/31/15 after making the annual adjusting entry was £65,000 and during 2015 bad debts written off amounted to £30,000. You are to provide the missing adjusting entry.

5. Prepaid rent at 1/1/15 was £9,000. During 2015 rent payments of £110,000 were made and charged to "rent expense." The 2015 income statement shows as a general expense the item "rent expense" in the amount of £125,000. You are to prepare the missing adjusting entry that must have been made, assuming reversing entries are not made.

6. Retained earnings at 1/1/15 was £150,000 and at 12/31/15 it was £210,000. During 2015, cash dividends of £60,000 were paid and a share dividend of £40,000 was issued. Both dividends were properly charged to retained earnings. You are to provide the missing closing entry.

Solution 3-179

1. Interest Receivable .......................................................... 2,400
   Interest Revenue .......................................................... 2,400
   Interest revenue per books £6,400
   Interest revenue received related to 2015 (£5,000 – £1,000) 4,000
   Interest accrued £2,400

2. Unearned Rent Revenue ..................................................... 37,300
   Rent Revenue .............................................................. 37,300
   Cash receipts £40,000
   Beginning balance 5,300
   Ending balance (8,000)
   Rent revenue £37,300
Solution 3-179 (cont.)

3. Depreciation Expense ........................................ 85,000
   Accumulated Depreciation—Equipment .................. 85,000
   Ending balance £270,000
   Beginning balance (230,000)
   Difference 40,000
   Write-off at time of sale 3/4 × $60,000 45,000
   £ 85,000

4. Bad Debt Expense ........................................ 45,000
   Allowance for Doubtful Accounts ..................... 45,000
   Ending balance £65,000
   Beginning balance (50,000)
   Difference 15,000
   Written off 30,000
   £45,000

5. Rent Expense ........................................ 15,000
   Prepaid Rent ........................................ 15,000
   Rent expense £125,000
   Less cash paid 110,000
   Reduction in prepaid rent account £ 15,000

6. Income Summary ........................................ 160,000
   Retained Earnings ..................................... 160,000
   Ending balance £210,000
   Beginning balance (150,000)
   Difference 60,000
   Cash dividends £60,000
   Share dividends 40,000 100,000
   £160,000

Pr. 3-180—Adjusting and closing entries.

The following trial balance was taken from the books of Fisk Corporation on December 31, 2015.

<table>
<thead>
<tr>
<th>Account</th>
<th>Debit</th>
<th>Credit</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash</td>
<td>$ 12,000</td>
<td></td>
</tr>
<tr>
<td>Accounts Receivable</td>
<td>40,000</td>
<td></td>
</tr>
<tr>
<td>Note Receivable</td>
<td>7,000</td>
<td></td>
</tr>
<tr>
<td>Allowance for Doubtful Accounts</td>
<td></td>
<td>$ 1,800</td>
</tr>
<tr>
<td>Inventory</td>
<td>44,000</td>
<td></td>
</tr>
<tr>
<td>Prepaid Insurance</td>
<td>4,800</td>
<td></td>
</tr>
<tr>
<td>Equipment</td>
<td>105,000</td>
<td></td>
</tr>
<tr>
<td>Accumulated Depreciation—Equip.</td>
<td>15,000</td>
<td></td>
</tr>
<tr>
<td>Accounts Payable</td>
<td>10,800</td>
<td></td>
</tr>
<tr>
<td>Share Capital—Ordinary</td>
<td>44,000</td>
<td></td>
</tr>
<tr>
<td>Retained Earnings</td>
<td>55,000</td>
<td></td>
</tr>
<tr>
<td>Sales Revenue</td>
<td>260,000</td>
<td></td>
</tr>
<tr>
<td>Cost of Goods Sold</td>
<td>111,000</td>
<td></td>
</tr>
<tr>
<td>Salaries and Wages Expense</td>
<td>50,000</td>
<td></td>
</tr>
<tr>
<td>Rent Expense</td>
<td>12,800</td>
<td></td>
</tr>
<tr>
<td>Totals</td>
<td>$386,600</td>
<td>$386,600</td>
</tr>
</tbody>
</table>
At year end, the following items have not yet been recorded.

a. Insurance expired during the year, $2,000.
b. Estimated bad debts, 1% of gross sales.
c. Depreciation on equipment, 10% per year.
d. Interest at 5% is receivable on the note for one full year.
*e. Rent paid in advance at December 31, $5,400 (originally charged to expense).
f. Accrued salaries and wages at December 31, $5,800.

**Instructions**
(a) Prepare the necessary adjusting entries.
(b) Prepare the necessary closing entries.

### Solution 3-180

#### (a) Adjusting Entries

<table>
<thead>
<tr>
<th>Account Description</th>
<th>Debit</th>
<th>Credit</th>
</tr>
</thead>
<tbody>
<tr>
<td>a. Insurance Expense</td>
<td></td>
<td>2,000</td>
</tr>
<tr>
<td>Prepaid Insurance</td>
<td></td>
<td>2,000</td>
</tr>
<tr>
<td>b. Bad Debt Expense</td>
<td></td>
<td>2,600</td>
</tr>
<tr>
<td>Allowance for Doubtful Accounts</td>
<td></td>
<td>2,600</td>
</tr>
<tr>
<td>c. Depreciation Expense</td>
<td></td>
<td>10,500</td>
</tr>
<tr>
<td>Accumulated Depreciation–Equip.</td>
<td></td>
<td>10,500</td>
</tr>
<tr>
<td>d. Interest Receivable</td>
<td></td>
<td>350</td>
</tr>
<tr>
<td>Interest Revenue</td>
<td></td>
<td>350</td>
</tr>
<tr>
<td>*e. Prepaid Rent</td>
<td>5,400</td>
<td></td>
</tr>
<tr>
<td>Rent Expense</td>
<td></td>
<td>5,400</td>
</tr>
<tr>
<td>f. Salaries and Wages Expense</td>
<td>5,800</td>
<td></td>
</tr>
<tr>
<td>Salaries and Wages Payable</td>
<td></td>
<td>5,800</td>
</tr>
</tbody>
</table>

#### (b) Closing Entries

<table>
<thead>
<tr>
<th>Account Description</th>
<th>Debit</th>
<th>Credit</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sales Revenue</td>
<td>260,000</td>
<td></td>
</tr>
<tr>
<td>Interest Revenue</td>
<td>350</td>
<td></td>
</tr>
<tr>
<td>Income Summary</td>
<td></td>
<td>260,350</td>
</tr>
<tr>
<td>Income Summary</td>
<td>189,300</td>
<td></td>
</tr>
<tr>
<td>Salaries and Wages Expense</td>
<td>55,800</td>
<td></td>
</tr>
<tr>
<td>Rent Expense</td>
<td>7,400</td>
<td></td>
</tr>
<tr>
<td>Depreciation Expense</td>
<td>10,500</td>
<td></td>
</tr>
<tr>
<td>Bad Debt Expense</td>
<td>2,600</td>
<td></td>
</tr>
<tr>
<td>Insurance Expense</td>
<td>2,000</td>
<td></td>
</tr>
<tr>
<td>Cost of Goods Sold</td>
<td>111,000</td>
<td></td>
</tr>
<tr>
<td>Income Summary</td>
<td>71,050</td>
<td></td>
</tr>
<tr>
<td>Retained Earnings</td>
<td></td>
<td>71,050</td>
</tr>
</tbody>
</table>
The Accounting Information System

*Pr. 3-181—Cash to accrual accounting.

The following information is available for Renn Corporation's first year of operations:

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Payment for merchandise purchases</td>
<td>€300,000</td>
</tr>
<tr>
<td>Ending merchandise inventory</td>
<td>110,000</td>
</tr>
<tr>
<td>Accounts payable (balance at end of year)</td>
<td>60,000</td>
</tr>
<tr>
<td>Collections from customers</td>
<td>210,000</td>
</tr>
</tbody>
</table>

The balance in accounts payable relates only to merchandise purchases. All merchandise items were marked to sell at 40% above cost. What should be the ending balance in accounts receivable, assuming all accounts are deemed collectible?

*Solution 3-181

Since this is the first year of operations and there were €210,000 of accounts receivable collected, one must compute total sales to determine the ending balance in accounts receivable. Cost of goods sold is €250,000 assuming the accounts payable are for inventory (the €300,000 constitutes only payments made for purchases). Since the markup is 40% on cost, the sales are €350,000 (€250,000 \times 140\%). Sales revenue of €350,000 less collections of €210,000 results in an ending accounts receivable balance of €140,000 as calculated below.

\[
\begin{align*}
\text{Cash purchases} & \quad \text{€300,000} \\
\text{A/P balance} & \quad 60,000 \\
\text{Total purchases} & \quad 360,000 \\
\text{Ending inventory} & \quad 110,000 \\
\text{Cost of goods sold} & \quad 250,000 \\
& \quad \times 140\% \\
\text{Sales} & \quad 350,000 \\
\text{Less collections} & \quad 210,000 \\
\text{Ending A/R} & \quad \text{€140,000}
\end{align*}
\]

*Pr. 3-182—Accrual accounting.

Yates Company's records provide the following information concerning certain account balances and changes in these account balances during the current year. Transaction information is missing from each item below.

**Instructions**

Prepare the *entry* to record the missing information for each account. (Consider each independently.)

1. Accounts Receivable: Jan. 1, balance ¥41,000, Dec. 31, balance ¥65,000, uncollectible accounts written off during the year, ¥6,000; accounts receivable collected during the year, ¥134,000. Prepare the entry to record sales.

2. Allowance for Doubtful Accounts: Jan. 1, balance ¥4,000, Dec. 31, balance ¥7,500, uncollectible accounts written off during the year, ¥25,000. Prepare the entry to record bad debt expense.

3. Accounts Payable: Jan. 1, balance ¥25,000, Dec. 31, balance ¥44,000, purchases on account for the year, ¥120,000. Prepare the entry to record payments on account.

4. Interest Receivable: Jan. 1 accrued, ¥3,000, Dec. 31 accrued, ¥2,100, earned for the year, ¥30,000. Prepare the entry to record cash interest received.
*Solution 3-182*

1. **Ending balance** ￥65,000
   - **Beginning balance** (41,000)
   - **Difference** 24,000
   - **Uncollectible accounts** 6,000 OR 205,000
   - **Rec. collected** 134,000
   - **Sales for period** ￥164,000
   - **Write-offs** 6,000
   - **Difference** 24,000
   - **Uncollectible accounts** 6,000
   - **OR** 205,000
   - **Receivables collected** 134,000
   - **Sales for period** ￥164,000
   - **Write-offs** 6,000
   - **Accounts Receivable** 164,000
   - **Sales Revenue** 164,000

2. **Ending balance** ￥7,500
   - **Beginning balance** (4,000)
   - **Difference** 3,500 OR 32,500
   - **Write-off** 25,000
   - **Beginning balance** (4,000)
   - **Adjusting entry** ￥28,500
   - **Adjusting entry** ￥28,500
   - **Bad Debt Expense** 28,500
   - **Adjusting entry** ￥28,500
   - **Allowance for Doubtful Accounts** 28,500

3. **Ending balance** ￥44,000
   - **Beginning balance** (25,000)
   - **Difference** 19,000 OR 145,000
   - **Purchases** 120,000
   - **Payments** ￥101,000
   - **Purchases** 120,000
   - **Payments** ￥101,000
   - **Accounts Payable** 101,000
   - **Cash** 101,000

4. **Revenue Earned** ￥30,000
   - **Beginning balance** ￥3,000
   - **Less: Dec. 31 accrual** (2,100)
   - **Plus: Jan. 1 accrual** 3,000 OR 33,000
   - **Cash received** ￥30,900
   - **Cash received** ￥30,900
   - **Cash** 30,900
   - **Interest Receivable** 30,900
   - *(This entry assumes that the ￥30,000 interest earned was first recorded as a receivable.)*
Pr. 3-183—Accrual basis.
Grier & Associates maintains its records on the cash basis. You have been engaged to convert its cash basis income statement to the accrual basis. The cash basis income statement, along with additional information, follows:

Grier & Associates
Income Statement (Cash Basis)
For the Year Ended December 31, 2015

Cash receipts from customers HK$450,000
Cash payments:
  Salaries and wages HK$150,000
  Taxes 75,000
  Insurance 40,000
  Interest 25,000 290,000
Net income HK$160,000

Additional information:

<table>
<thead>
<tr>
<th></th>
<th>Balances at 12/31</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2015</td>
</tr>
<tr>
<td>Accounts receivable</td>
<td>HK$50,000</td>
</tr>
<tr>
<td>Salaries and wages payable</td>
<td>10,000</td>
</tr>
<tr>
<td>Taxes payable</td>
<td>14,000</td>
</tr>
<tr>
<td>Prepaid insurance</td>
<td>8,000</td>
</tr>
<tr>
<td>Accumulated depreciation</td>
<td>90,000</td>
</tr>
<tr>
<td>Interest payable</td>
<td>3,000</td>
</tr>
</tbody>
</table>

No plant assets were sold during 2015.

Solution 3-183

Grier & Associates
Income Statement (Accrual Basis)
For the Year Ended December 31, 2015

Revenue (HK$450,000 + HK$50,000 – HK$40,000) HK$460,000
Expenses
  Salaries and wages (HK$150,000 + HK$10,000 – HK$20,000) HK$140,000
  Taxes (HK$75,000 + HK$14,000 – HK$19,000) 70,000
  Insurance (HK$40,000 + HK$4,000 – HK$8,000) 36,000
  Depreciation (HK$90,000 – HK$75,000) 15,000
  Interest (HK$25,000 + HK$3,000 – HK$9,000) 19,000
Total expenses 280,000
Net Income HK$180,000
The trial balance of Winsor Corporation is reproduced below. The information below is relevant to the preparation of adjusting entries needed to both properly match revenues and expenses for the period and reflect the proper balances in the real and nominal accounts.

**Instructions**
As the accountant for Winsor Corporation, you are to prepare adjusting entries based on the following data, entering the adjustments on the worksheet and completing the additional columns with respect to the income statement and statement of financial position. Carefully key your adjustments and label all items. (Due to time constraints, an adjusted trial balance is not required.) Round all computations to the nearest dollar.

(a) Winsor determined that one percent of sales will become uncollectible.

(b) Depreciation is computed using the straight-line method, with an eight year life and £1,000 salvage value.

(c) Salesmen are paid commissions of 10% of sales. Commissions on sales for the last week of December have not been paid.

(d) The note was issued on October 1, bearing interest at 4%, due Feb. 1, 2016.

(e) A physical inventory of supplies indicated £440 of supplies currently in stock.

(f) Provisions of a lease contract specify payments must be made one month in advance, with monthly payments at £800/mo. This provision has been complied with as of Dec. 31, 2015.

---

**Winsor Corporation**  
**Worksheet**  
**For the Year Ended December 31, 2015**

<table>
<thead>
<tr>
<th>Accounts</th>
<th>Dr. Balance</th>
<th>Cr. Balance</th>
<th>Adjustments</th>
<th>Income Statement</th>
<th>Statement of Financial Position</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash</td>
<td>12,400</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Trading Sec.</td>
<td>4,050</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Accounts Rec.</td>
<td>50,000</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Allow. for D. A.</td>
<td></td>
<td></td>
<td>420</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Inventory</td>
<td>16,800</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Supplies</td>
<td>1,040</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Equipment</td>
<td>65,000</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Acc. Depr.-Eq.</td>
<td></td>
<td>9,500</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Accounts Payable</td>
<td>4,400</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Notes Payable</td>
<td>5,000</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Share Capital–Ord.</td>
<td></td>
<td>40,000</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Ret. Earnings</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>34,690</td>
</tr>
<tr>
<td>Cost of Goods Sold</td>
<td>225,520</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Salaries/Wages Exp.</td>
<td>20,800</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Sales Comm. Exp.</td>
<td>29,000</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Rent Expense</td>
<td>7,200</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Misc. Expense</td>
<td>2,200</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Sales Revenue</td>
<td></td>
<td></td>
<td>340,000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Totals</td>
<td>434,010</td>
<td>434,010</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
Solution 3-184

Winsor Corporation
Worksheet
For the Year Ended December 31, 2015

<table>
<thead>
<tr>
<th>Accounts</th>
<th>Trial Balance</th>
<th>Adjustments</th>
<th>Income Statement</th>
<th>Financial Position</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Dr.</td>
<td>Cr.</td>
<td>Dr.</td>
<td>Cr.</td>
</tr>
<tr>
<td>Cash</td>
<td>12,400</td>
<td></td>
<td>12,400</td>
<td></td>
</tr>
<tr>
<td>Trading Sec.</td>
<td>4,050</td>
<td></td>
<td>4,050</td>
<td></td>
</tr>
<tr>
<td>Accounts Rec.</td>
<td>50,000</td>
<td></td>
<td></td>
<td>50,000</td>
</tr>
<tr>
<td>Allow. for D. A.</td>
<td>420</td>
<td>(a) 3,400</td>
<td></td>
<td>3,820</td>
</tr>
<tr>
<td>Inventory</td>
<td>16,800</td>
<td></td>
<td>16,800</td>
<td></td>
</tr>
<tr>
<td>Supplies</td>
<td>1,040</td>
<td>(e) 600</td>
<td></td>
<td>440</td>
</tr>
<tr>
<td>Equipment</td>
<td>65,000</td>
<td></td>
<td>65,000</td>
<td></td>
</tr>
<tr>
<td>Accum. Depr.-Eq.</td>
<td>9,500</td>
<td>(b) 8,000</td>
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<td>17,500</td>
</tr>
<tr>
<td>Accounts Payable</td>
<td>4,400</td>
<td></td>
<td>4,400</td>
<td></td>
</tr>
<tr>
<td>Notes Payable</td>
<td>5,000</td>
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<td>5,000</td>
<td></td>
</tr>
<tr>
<td>Share Capital–Ord.</td>
<td>40,000</td>
<td></td>
<td>40,000</td>
<td></td>
</tr>
<tr>
<td>Ret. Earnings</td>
<td>34,690</td>
<td></td>
<td></td>
<td>34,690</td>
</tr>
<tr>
<td>Cost of Goods Sold</td>
<td>225,520</td>
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<td>225,520</td>
<td></td>
</tr>
<tr>
<td>Salaries/Wages Exp.</td>
<td>20,800</td>
<td></td>
<td>20,800</td>
<td></td>
</tr>
<tr>
<td>Sales Comm. Exp.</td>
<td>29,000</td>
<td>(c) 5,000</td>
<td>34,000</td>
<td></td>
</tr>
<tr>
<td>Rent Expense</td>
<td>7,200</td>
<td>(f) 800</td>
<td>6,400</td>
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</tr>
<tr>
<td>Misc. Expense</td>
<td>2,200</td>
<td></td>
<td>2,200</td>
<td></td>
</tr>
<tr>
<td>Sales Revenue</td>
<td>340,000</td>
<td></td>
<td>340,000</td>
<td></td>
</tr>
<tr>
<td>Totals</td>
<td>434,010</td>
<td></td>
<td>434,010</td>
<td></td>
</tr>
<tr>
<td>Bad Debt Exp.</td>
<td>3,400</td>
<td></td>
<td>3,400</td>
<td></td>
</tr>
<tr>
<td>Depr. Exp.</td>
<td>8,000</td>
<td></td>
<td>8,000</td>
<td></td>
</tr>
<tr>
<td>Sales Com. Pay.</td>
<td>5,000</td>
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<td></td>
<td></td>
</tr>
<tr>
<td>Interest Expense</td>
<td>50</td>
<td></td>
<td>50</td>
<td></td>
</tr>
<tr>
<td>Interest Payable</td>
<td>50</td>
<td></td>
<td>50</td>
<td></td>
</tr>
<tr>
<td>Supplies Expense</td>
<td>600</td>
<td></td>
<td>600</td>
<td></td>
</tr>
<tr>
<td>Prepaid Rent</td>
<td>800</td>
<td></td>
<td>800</td>
<td></td>
</tr>
<tr>
<td>Totals</td>
<td>17,850</td>
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<td>300,970</td>
<td>340,000</td>
</tr>
<tr>
<td>Net Income</td>
<td>39,030</td>
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<td></td>
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<tr>
<td>Totals</td>
<td>340,000</td>
<td></td>
<td>340,000</td>
<td>149,490</td>
</tr>
</tbody>
</table>

Adjusting entries and explanations

(a) Bad Debt Expense (£340,000 x 1%) ........................................... 3,400
   Allowance for Doubtful Accounts ............................................ 3,400

(b) Depreciation Expense .......................................................... 8,000
   Accumulated Depreciation—Equipment ......................................... 8,000
   (£65,000 – £1,000 is £64,000. One-eighth of £64,000 is £8,000.)
Solution 3-184 (cont.)

(c) Sales Commission Expense ................................................................. 5,000
   Sales Commissions Payable ............................................................... 5,000
   (10% of sales is 10% × £340,000, which is £34,000. The balance in the Sales Commission Expense account is £29,000 before adjustment, indicating that £5,000 of Commissions are accrued but unpaid.)

(d) Interest Expense .................................................................................. 50
   Interest Payable ..................................................................................... 50
   (£5,000 × .04 × 3/12 = £50)

(e) Supplies Expense .................................................................................. 600
   Supplies ................................................................................................. 600
   (The balance of £1,040 in the Supplies account before adjustment less the correct ending balance of £440 is £600.)

(f) Prepaid Rent ......................................................................................... 800
   Rent Expense ......................................................................................... 800
   (Since the trial balance contains no account for prepaid rent, the £800 lease payment has apparently been debited to Rent Expense. An account must be set up for the Prepaid Rent.)

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