

# ***Survey of Accounting 7th edition Edmonds Test Bank***

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# Survey of Accounting Edition 7 by Edmonds

CORRECT ANSWERS ARE LOCATED IN THE 2ND HALF OF THIS DOC.

**TRUE/FALSE - Write 'T' if the statement is true and 'F' if the statement is false.**

- 1) The term "recognition" means to report an economic event in the financial statements.
  - ☐ true
  - ☐ false
- 2) Companies that use accrual accounting recognize revenues and expenses at the time that cash is paid or received.
  - ☐ true
  - ☐ false
- 3) The term "accrual" describes an earnings event that is recognized before cash is paid or received.
  - ☐ true
  - ☐ false
- 4) A company may recognize a revenue or expense without a corresponding cash collection or payment in the same accounting period.
  - ☐ true
  - ☐ false
- 5) A payment to an employee in settlement of salaries payable decreases an asset and decreases stockholders' equity.
  - ☐ true
  - ☐ false
- 6) An increase in an expense may be accompanied by a decrease in a liability.
  - ☐ true
  - ☐ false
- 7) Revenues and expenses are temporary accounts.
  - ☐ true
  - ☐ false
- 8) In the closing process, the amounts in temporary accounts are moved to net income, a permanent account.
  - ☐ true
  - ☐ false

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- 9) Accounts that are closed include expenses, dividends, and unearned revenues.
- ☐ true
  - ☐ false
- 10) After closing the accounts, all income statement accounts have non-zero balances.
- ☐ true
  - ☐ false
- 11) Two of the steps in the accounting cycle are adjusting the accounts and closing the accounts.
- ☐ true
  - ☐ false
- 12) Accrual-basis accounting often fails to match expenses with revenues.
- ☐ true
  - ☐ false
- 13) Adjusting entries never affect a business's cash account.
- ☐ true
  - ☐ false
- 14) Asset use transactions always involve the payment of cash.
- ☐ true
  - ☐ false
- 15) Providing services to customers on account is an asset exchange transaction.
- ☐ true
  - ☐ false
- 16) An adjusting entry that decreases unearned revenue and increases service revenue is a claims exchange transaction.
- ☐ true
  - ☐ false
- 17) Sometimes the recognition of revenue is accompanied by an increase in liabilities.
- ☐ true
  - ☐ false
- 18) The collection of an account receivable is a claims exchange transaction.
- ☐ true
  - ☐ false

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**MULTIPLE CHOICE - Choose the one alternative that best completes the statement or answers the question.**

19) The balance of Accounts Receivable is shown on which of the following financial statements?

- A) Income statement
- B) Balance sheet
- C) Statement of cash flows
- D) None of these answer choices

20) Which of the following illustrates how the recognition of revenue earned on account affects the financial statements?

|    | Balance Sheet                               |   | Income Statement               |   | Statement of Cash |     |
|----|---------------------------------------------|---|--------------------------------|---|-------------------|-----|
|    | Assets = Liabilities + Stockholders' Equity |   | Revenue - Expense = Net Income |   | Flows             |     |
| A. | +                                           | + |                                |   |                   |     |
| B. | +                                           | + | +                              |   | +                 |     |
| C. | -                                           | - |                                | + | -                 | -OA |
| D. | -                                           | + | +                              |   | +                 | +OA |

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- A) Option A
- B) Option B
- C) Option C
- D) Option D

21) Bledsoe Company received \$16,000 cash from the issue of stock on January 1, Year 1.

During Year 1, Bledsoe earned \$8,600 of revenue on account. The company collected \$6,200 cash from accounts receivable and paid \$5,500 cash for operating expenses. Based on this information alone, during Year 1, which of the following statements is true?

- A) Total assets increased by \$25,300.
- B) Total assets increased by \$700.
- C) Total assets increased by \$19,100.
- D) Total assets did not change.

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- 22) Bledsoe Company received \$17,000 cash from the issue of stock on January 1, Year 1. During Year 1, Bledsoe earned \$8,500 of revenue on account. The company collected \$6,000 cash from accounts receivable and paid \$5,400 cash for operating expenses. Based on this information alone, during Year 1, which of the following statements is true?
- A) Total assets increased by \$20,100.
  - B) Total assets increased by \$600.
  - C) Total assets increased by \$26,100.
  - D) Total assets did not change.

- 23) Addison Company experienced an accounting event that affected its financial statements as indicated below:

| <b>Assets</b> | <b>=</b> | <b>Liabilities</b> | <b>+</b> | <b>Stockholders' Equity</b> | <b>Revenue</b> | <b>-</b> | <b>Expense</b> | <b>=</b> | <b>Net Income</b> | <b>Statement of Cash Flow</b> |
|---------------|----------|--------------------|----------|-----------------------------|----------------|----------|----------------|----------|-------------------|-------------------------------|
| +             |          |                    |          | +                           |                |          |                |          | +                 |                               |

Which of the following accounting events could have caused these effects on Addison's financial statements?

- A) Issued common stock
- B) Earned revenue on account
- C) Earned cash revenue
- D) Collected cash from accounts receivable

- 24) Ash Company experienced a business event that affected its financial statements as indicated below.

| <b>Assets</b> | <b>=</b> | <b>Liabilities</b> | <b>+</b> | <b>Stockholders' Equity</b> | <b>Revenue</b> | <b>-</b> | <b>Expense</b> | <b>=</b> | <b>Net Income</b> | <b>Statement of Cash Flow</b> |
|---------------|----------|--------------------|----------|-----------------------------|----------------|----------|----------------|----------|-------------------|-------------------------------|
|               |          |                    |          |                             |                |          |                |          |                   | +OA                           |

Which of the following events could have caused these effects on the company's financial statements?

- A) Collecting cash from customers as payment of accounts receivable
- B) Earning cash for providing services to customers
- C) Paid cash to purchase land
- D) Purchased supplies on account

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- 25) Stanley Company earns \$8,000 of revenue on account in Year 1. Cash collections of receivables amount to \$4,500 in Year 1 with the remainder being collected in Year 2. Which of the following shows how the recognition of revenue in Year 1 will affect the company's accounting equation?

| Balance Sheet |   |                     |   |                  |   |              |                      |
|---------------|---|---------------------|---|------------------|---|--------------|----------------------|
| Assets        |   |                     | = | Liabilities      |   | +            | Stockholders' Equity |
| Cash          | + | Accounts Receivable | = | Accounts Payable | + | Common Stock | + Retained Earnings  |
| A. 4,500      |   |                     |   |                  |   |              | 4,500                |
| B.            |   | 4,500               |   |                  |   |              | 4,000                |
| C.            |   | 8,000               |   |                  |   |              | 8,000                |
| D. 8,000      |   |                     |   |                  |   |              | 8,000                |

- A) Option A  
B) Option B  
C) Option C  
D) Option D

- 26) Leece Company experienced an accounting event that affected its financial statements as indicated below:

| Balance Sheet |   |                                    | Income Statement |   |                      | Statement     |
|---------------|---|------------------------------------|------------------|---|----------------------|---------------|
| Assets        | = | Liabilities + Stockholders' Equity | Revenue          | - | Expense = Net Income | of Cash Flows |
| +/-           |   | n/a                                | n/a              |   | n/a                  | +OA           |

Which of the following accounting events could have caused these effects on the company's financial statements?

- A) Provided consulting services on account  
B) Provided consulting services for cash  
C) Collected cash in partial settlement of its account receivable  
D) The information provided does not represent a completed event.
- 27) What happens when a company collects cash from accounts receivable?
- A) The asset accounts receivable increases.  
B) Stockholders' equity increases.  
C) Liabilities decrease.  
D) Total assets are not affected.

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- 28) Stannous Company earns \$10,000 of revenue on account in Year 1. Cash collections of receivables amount to \$3,500 in Year 1 with the remainder being collected in Year 2. Which of the following shows how the collection of cash will affect the company's accounting equation in Year 1?

|    |        | Balance Sheet |                       |   |                  |   |                                  |
|----|--------|---------------|-----------------------|---|------------------|---|----------------------------------|
|    |        | Assets        |                       | = | Liabilities      | + | Stockholders' Equity             |
|    |        | Cash          | + Accounts Receivable | = | Accounts Payable | + | Common Stock + Retained Earnings |
| A. | 3,500  |               | -3,500                |   |                  |   |                                  |
| B. | 3,500  |               |                       |   |                  |   | 3,500                            |
| C. | 10,000 |               | 10,000                |   |                  |   | -4,000                           |
| D. |        |               | 10,000                |   |                  |   | 10,000                           |

- A) Option A
- B) Option B
- C) Option C
- D) Option D

- 29) GreyCo and Sons earns \$7,140 of revenue on account in Year 1. Cash collections of receivables amount to \$6,420 in Year 1 with the remainder being collected in Year 2. Based on this information alone the company's financial statements would show
- A) a balance of \$720 in accounts receivable at the end of Year 2.
  - B) cash inflow from operating activities of \$720 during Year 1.
  - C) cash inflow from operating activities of \$6,420 during Year 2.
  - D) a balance of \$720 in accounts receivable at the beginning of Year 2.

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30) Which of the following answer choices accurately reflects how the recording of accrued salary expense at the end of the year affects the financial statements of a business?

|    | Balance Sheet                 |   | Income Statement    |        | Statement of |
|----|-------------------------------|---|---------------------|--------|--------------|
|    | Assets = Liabilities + Equity |   | Revenue - Expense = | Net    | Cash Flows   |
|    |                               |   |                     | Income |              |
| A. | +                             | - | +                   | -      | -OA          |
| B. | -                             | - | +                   | -      |              |
| C. | +                             | - | +                   | -      |              |
| D. | -                             | - | +                   | +      | -OA          |

- A) Option A
- B) Option B
- C) Option C
- D) Option D

31) In Year 1, Dale Company incurred \$4,000 of utility expense on account. Dale paid cash for these expenses in Year 2. Which of the following shows how paying cash for utility expense will affect Dale's accounting equation in Year 2?

|    | Balance Sheet |                     | Income Statement    |        | Statement of |
|----|---------------|---------------------|---------------------|--------|--------------|
|    | Assets        |                     | Revenue - Expense = | Net    | Cash Flows   |
|    | Cash          | Accounts Receivable | Accounts Payable    | Income |              |
| A. | (4,000)       |                     | (4,000)             |        |              |
| B. | 4,000         |                     | (4,000)             |        |              |
| C. |               | (4,000)             |                     |        |              |
| D. | (4,000)       |                     |                     |        |              |

- A) Option A
- B) Option B
- C) Option C
- D) Option D

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32) Which of the following shows how a payment made to settle an accrued expense, such as the salaries payable, will affect a company's financial statements?

|    | Balance Sheet                           |   | Income Statement            |  | Statement     |
|----|-----------------------------------------|---|-----------------------------|--|---------------|
|    | Assets=Liabilities+Stockholders' Equity |   | Revenue-Expense= Net Income |  | of Cash Flows |
| A. | -                                       | - |                             |  | -FA           |
| B. | -                                       | - |                             |  |               |
| C. | -                                       | - |                             |  | -OA           |
| D. | -                                       | - |                             |  | -IA           |

- A) Option A
- B) Option B
- C) Option C
- D) Option D

33) During Year 1 China Enterprises experienced the following events:

- (1) Earned \$10,000 of revenue on account
- (2) Incurred \$9,000 of expenses on account

Based on this information, which of the following describes the combined effects of both events on the amounts of total assets, net income, and cash flows from operating activities shown on the Year 1 financial statements?

|   | Total Assets | Net Income | Cash Flow from Operating Activities |
|---|--------------|------------|-------------------------------------|
| A | \$ 1,000     | \$ 1,000   | 0                                   |
| B | \$10,000     | \$ 1,000   | 0                                   |
| C | \$10,000     | \$ 1,000   | \$1,000                             |
| D | \$10,000     | \$10,000   | \$1,000                             |

- A) Option A
- B) Option B
- C) Option C
- D) Option D

34) How will accounts receivable appear on the following financial statements?

- A) Asset on the balance sheet
- B) Expense on the income statement
- C) Liability on the balance sheet
- D) Revenue on the income statement

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- 35) How will accounts payable appear on the following financial statements?
- A) Expense on the income statement
  - B) Revenue on the income statement
  - C) Liability on the balance sheet
  - D) Asset on the balance sheet
- 36) Greg Company recognized revenue on account. Which of the following financial statements are affected by this accounting event?
- A) Balance sheet
  - B) Income statement
  - C) Statement of cash flows
  - D) Income statement and the balance sheet
- 37) Amber Company recognized accrued salary expense. Which of the following financial statements are affected by this accounting event?
- A) Statement of cash flows
  - B) Income statement
  - C) Balance sheet
  - D) Income statement and the balance sheet
- 38) Mary Company collected cash from an account receivable. Which of the following financial statements are affected by this accounting event?
- A) Income statement and the statement of cash flows
  - B) Statement of changes in stockholders' equity
  - C) Balance sheet and the statement of cash flows
  - D) Income statement and the balance sheet
- 39) Paying cash to settle a salaries payable obligation will affect which section of the statement of cash flows?
- A) Financing activities
  - B) Operating activities
  - C) Noncash activities
  - D) Investing activities
- 40) Which of the following transactions does **not** involve an accrual?
- A) Recording interest earned that will be received in the next period
  - B) Recording operating expense incurred but not yet paid
  - C) Recording salary expense incurred but not yet paid
  - D) Recording the pre-payment of two years' worth of insurance

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- 41) Jantzen Company recorded employee salaries earned but not yet paid. Which of the following represents the effect of this transaction on the financial statements?

|    | Balance Sheet                 |   |   | Income Statement    |        | Statement of |
|----|-------------------------------|---|---|---------------------|--------|--------------|
|    | Assets = Liabilities + Equity |   |   | Revenue - Expense = | Net    | Cash Flows   |
|    |                               |   |   |                     | Income |              |
| A. | +                             | + |   | +                   | +      | OA           |
| B. |                               | + | - | +                   | -      | IA           |
| C. | -                             |   | - | +                   | -      |              |
| D. |                               | + | - | +                   | -      |              |

- A) Option A
- B) Option B
- C) Option C
- D) Option D

- 42) Revenue on account amounted to \$5,200. Cash collections of accounts receivable amounted to \$3,200. Expenses for the period were \$2,700. The company paid dividends of \$750. What was the amount of net income for the period?

- A) \$500
- B) \$2,450
- C) \$1,750
- D) \$2,500

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- 43) Revenue on account amounted to \$5,000. Cash collections of accounts receivable amounted to \$2,300. Expenses for the period were \$2,100. The company paid dividends of \$450. What was the amount of net income for the period?

- A) \$1,200
- B) \$2,900
- C) \$2,850
- D) \$2,450

- 44) The recognition of an expense may be accompanied by which of the following?

- A) An increase in liabilities
- B) A decrease in liabilities
- C) A decrease in revenue
- D) An increase in assets

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- 45) Which of the following statements about accrual accounting is true?
- A) Revenue is recorded only when cash is received.
  - B) Revenue is recorded in the period when it is earned.
  - C) Revenue is recorded in the period when it is earned and expenses are recorded when they are incurred.
  - D) Expenses are recorded when they are incurred.
- 46) Recognition of revenue **may** be accompanied by which of the following?
- A) A decrease in a liability
  - B) An increase in a liability
  - C) An increase in an asset
  - D) An increase in an asset or a decrease in a liability
- 47) Mize Company provided \$45,500 of services on account, and collected \$38,000 from customers during the year. The company also incurred \$37,000 of expenses on account, and paid \$32,400 against its payables. Which of the following statements about the result of these events is true?
- A) Total assets would increase.
  - B) Total liabilities would increase.
  - C) Total stockholders' equity would increase.
  - D) All of these answer choices are correct.
- 48) Which of the following events would **not** require an end-of-year adjusting entry?
- A) Purchasing supplies for cash
  - B) Paying for one year's rent on July 1
  - C) Providing services for cash
  - D) Each of these answer choices would require an end-of-year adjusting entry.
- 49) The adjusting entry to recognize work completed on unearned revenue involves which of the following?
- A) An increase in assets and a decrease in liabilities
  - B) An increase in liabilities and a decrease in stockholders' equity
  - C) A decrease in liabilities and an increase in stockholders' equity
  - D) A decrease in assets and a decrease in liabilities

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- 50) Jack's Snow Removal Company received a cash advance of \$15,000 on December 1, Year 1 to provide services during the months of December, January, and February. The year-end adjustment on December 31, Year 1, to recognize the partial expiration of the contract will
- A) increase stockholders's equity by \$5,000
  - B) increase assets by \$5,000
  - C) increase liabilities by \$5,000
  - D) increase assets by \$5,000 and increase stockholders's equity by \$5,000
- 51) Jack's Snow Removal Company received a cash advance of \$6,000 on December 1, Year 1 to provide services during the months of December, January, and February. The year-end adjustment on December 31, Year 1, to recognize the partial expiration of the contract will
- A) increase assets by \$2,000
  - B) increase stockholders' equity by \$2,000
  - C) increase liabilities by \$2,000
  - D) increase assets by \$2,000 and increase stockholders' equity by \$2,000

- 52) The following account balances were drawn from the financial statements of Grayson Company:

|                            |          |                                     |           |
|----------------------------|----------|-------------------------------------|-----------|
| <b>Cash</b>                | \$ 5,500 | <b>Accounts payable</b>             | \$ 1,800  |
| <b>Accounts receivable</b> | \$ 2,600 | <b>Common stock</b>                 | ?         |
| <b>Land</b>                | \$ 9,100 | <b>Retained earnings, January 1</b> | \$ 3,800  |
|                            |          | <b>Revenue</b>                      | \$ 10,600 |
|                            |          | <b>Expenses</b>                     | \$ 7,800  |

Based on the above information, what is the balance of Common Stock for Grayson Company?

- A) \$1,000
- B) \$8,800
- C) \$11,500
- D) \$11,600

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53) The following account balances were drawn from the financial statements of Grayson

Company:

|                            |           |                                     |           |
|----------------------------|-----------|-------------------------------------|-----------|
| <b>Cash</b>                | \$ 8,800  | <b>Accounts payable</b>             | \$ 2,500  |
| <b>Accounts receivable</b> | \$ 3,000  | <b>Common stock</b>                 | ?         |
| <b>Land</b>                | \$ 16,000 | <b>Retained earnings, January 1</b> | \$ 5,400  |
|                            |           | <b>Revenue</b>                      | \$ 19,000 |
|                            |           | <b>Expenses</b>                     | \$ 14,500 |

Based on the above information, what is the balance of Common Stock for Grayson

Company?

- A) \$15,400
- B) \$19,900
- C) \$900
- D) \$20,800

54) Prior to closing the accounts, Syracuse Company's accounting records showed the following balances:

|                          |         |
|--------------------------|---------|
| <b>Retained earnings</b> | \$8,450 |
| <b>Service revenue</b>   | 9,150   |
| <b>Interest revenue</b>  | 1,550   |
| <b>Salaries expense</b>  | 6,000   |
| <b>Operating expense</b> | 2,100   |
| <b>Interest expense</b>  | 1,250   |
| <b>Dividends</b>         | 1,850   |

After closing the accounts, Syracuse's retained earnings balance would be

- A) \$9,800.
- B) \$8,450.
- C) \$7,950.
- D) \$11,650.

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55) Prior to closing the accounts, Syracuse Company's accounting records showed the following balances:

|                          |           |
|--------------------------|-----------|
| <b>Retained earnings</b> | \$ 16,800 |
| <b>Service revenue</b>   | 21,750    |
| <b>Interest revenue</b>  | 1,800     |
| <b>Salaries expense</b>  | 12,300    |
| <b>Operating expense</b> | 3,450     |
| <b>Interest expense</b>  | 900       |
| <b>Dividends</b>         | 2,700     |

After closing the accounts, Syracuse's retained earnings balance would be

- A) \$16,800.
- B) \$23,700.
- C) \$21,000.
- D) \$26,400.

56) Sheldon Company began Year 1 with \$2,000 in its supplies account. During the year, the company purchased \$5,900 of supplies on account. The company paid \$2,900 on accounts payable by year end. At the end of Year 1, Sheldon counted \$3,500 of supplies on hand.

Sheldon's financial statements for Year 1 would show:

- A) \$3,500 of supplies; \$2,400 of supplies expense
- B) \$5,000 of supplies; \$5,900 of supplies expense
- C) \$3,500 of supplies; \$4,400 of supplies expense
- D) \$5,000 of supplies; \$1,500 of supplies expense

57) Sheldon Company began Year 1 with \$1,200 in its supplies account. During the year, the company purchased \$3,400 of supplies on account. The company paid \$3,000 on accounts payable by year end. At the end of Year 1, Sheldon counted \$1,400 of supplies on hand.

Sheldon's financial statements for Year 1 would show:

- A) \$1,600 of supplies; \$200 of supplies expense
- B) \$1,400 of supplies; \$2,000 of supplies expense
- C) \$1,400 of supplies; \$3,200 of supplies expense
- D) \$1,600 of supplies; \$3,400 of supplies expense

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58) Which of the following show how purchasing supplies for cash will affect a company's financial statements?

|    | Balance Sheet                 |   | Income Statement    |        | Statement of |
|----|-------------------------------|---|---------------------|--------|--------------|
|    | Assets = Liabilities + Equity |   | Revenue - Expense = | Net    | Cash Flows   |
|    |                               |   |                     | Income |              |
| A. | +                             | - |                     |        | -IA          |
| B. | +                             | + | +                   | -      |              |
| C. | +                             | - | +                   | -      | -OA          |
| D. | +                             | - |                     |        | -OA          |

- A) Option A
- B) Option B
- C) Option C
- D) Option D

59) Which of the following shows how the year-end adjustment to recognize supplies expense will affect a company's financial statements?

|    | Balance Sheet                 |   | Income Statement    |        | Statement of |
|----|-------------------------------|---|---------------------|--------|--------------|
|    | Assets = Liabilities + Equity |   | Revenue - Expense = | Net    | Cash Flows   |
|    |                               |   |                     | Income |              |
| A. | +                             | - |                     |        |              |
| B. | -                             | - | +                   | -      |              |
| C. | +                             | - |                     |        | -OA          |
| D. | -                             | - | +                   | -      | -OA          |

- A) Option A
- B) Option B
- C) Option C
- D) Option D

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60) Knoll Company started Year 2 with a \$760 balance in its Cash account, a \$630 balance in its Supplies account and a \$1,650 balance in its Common Stock account. During Year 2 the company experienced the following events.

1. (1) Paid \$465 cash to purchase supplies
2. (2) Physical count revealed \$165 of supplies on hand at the end of Year 2

Based on this information the amount of supplies expense reported on the Year 2 income statement is

- A) \$930.
- B) \$465.
- C) \$165.
- D) \$1,095.

61) Jason Company paid \$6,000 for one year's rent in advance beginning on October 1, Year 1. Jason's Year 1 income statement would report rent expense, and its statement of cash flows would report cash outflow for rent, respectively, of

- A) \$6,000; \$6,000
- B) \$1,500; \$6,000
- C) \$1,000; \$6,000
- D) \$1,500; \$1,500

62) Jason Company paid \$7,200 for one year's rent in advance beginning on October 1, Year 1. Jason's Year 1 income statement would report rent expense, and its statement of cash flows would report cash outflow for rent, respectively, of

- A) \$7,200; \$7,200
- B) \$1,800; \$1,800
- C) \$1,800; \$7,200
- D) \$1,200; \$7,200

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63) Which of the following shows how paying cash to lease office space for one year affects the company's financial statements?

| Balance Sheet                 |   |   | Income Statement    |        | Statement of |     |
|-------------------------------|---|---|---------------------|--------|--------------|-----|
| Assets = Liabilities + Equity |   |   | Revenue - Expense = | Net    | Cash Flows   |     |
|                               |   |   |                     | Income |              |     |
| A.                            | + | - |                     | +      | -            | -OA |
| B.                            | - |   | -                   | +      | -            |     |
| C.                            | + | - |                     |        |              | -OA |
| D.                            | - | + |                     |        |              | -OA |

- A) Option A
- B) Option B
- C) Option C
- D) Option D

64) On October 1, Year 1 Allen Company paid \$24,000 cash to lease office space for one year beginning immediately. How would the adjustment on December 31, Year 1 to recognize rent expense affect the company's financial statements?

| Balance Sheet                 |         |       | Income Statement    |        | Statement |     |
|-------------------------------|---------|-------|---------------------|--------|-----------|-----|
| Assets = Liabilities + Equity |         |       | Revenue - Expense = | Net    | of Cash   |     |
|                               |         |       |                     | Income | Flows     |     |
| A.                            | (6,000) |       | (6,000)             | 6,000  | (6,000)   |     |
| B.                            | (6,000) | 6,000 |                     | 6,000  | (6,000)   | −OA |
| C.                            | (2,000) |       | (2,000)             | 2,000  | (2,000)   |     |
| D.                            | (4,000) | +     | (4,000)             | 4,000  | (4,000)   | −OA |

- A) Option A
- B) Option B
- C) Option C
- D) Option D

## Survey of Accounting Edition 7 by Edmonds

- 65) On August 1 of Year 1, Presco Enterprises paid \$1,656 cash for an insurance policy that would provide protection for a one-year term. The company's fiscal closing date is December 31. Based on this information, the amount of insurance expense appearing on the Year 1 income statement would be
- A) \$1,656.  
B) \$690.  
C) \$1,242.  
D) \$966.
- 66) On November 1 of Year 1, Falloch, Incorporated paid \$3,024 cash for a contract allowing the company to use office space for one year. The company's fiscal closing date is December 31. Based on this information, the amount of cash flow from operating activities appearing on the Year 1 statement of cash flows would be
- A) \$(2,520).  
B) \$(3,024).  
C) \$(504).  
D) \$(1,512).
- 67) On May 1 of Year 1, Matthew Company paid \$3,360 cash for an insurance policy that would protect the company for one year. The company's fiscal closing date is December 31. Based on this information, the amount of insurance expense and the cash flow from operating activities shown on the Year 1 financial statements would be

- A)
- |                          |                  |
|--------------------------|------------------|
| <b>Insurance Expense</b> | <b>Cash Flow</b> |
| \$2,240                  | \$1,120          |
- B)
- |                          |                  |
|--------------------------|------------------|
| <b>Insurance Expense</b> | <b>Cash Flow</b> |
| \$3,360                  | \$ (2,240)       |
- C)
- |                          |                  |
|--------------------------|------------------|
| <b>Insurance Expense</b> | <b>Cash Flow</b> |
| \$2,240                  | \$ (1,120)       |
- D)
- |                          |                  |
|--------------------------|------------------|
| <b>Insurance Expense</b> | <b>Cash Flow</b> |
| \$2,240                  | \$ (3,360)       |

## Survey of Accounting Edition 7 by Edmonds

68) On June 1 of Year 1, Doe Company paid \$2,640 cash for an insurance policy that would protect the company for one year. The company's fiscal closing date is December 31. Based on this information alone, the amount of prepaid insurance and insurance expense shown on the Year 2 financial statements would be

A)

**Prepaid Insurance**

\$1,540

**Insurance Expense**

\$1,100

B)

**Prepaid Insurance**

\$1,100

**Insurance Expense**

\$1,540

C)

**Prepaid Insurance**

Zero

**Insurance Expense**

\$2,640

D)

**Prepaid Insurance**

Zero

**Insurance Expense**

\$1,100

69) How would purchasing prepaid rent be classified?

A) Asset source transaction

B) Asset use transaction

C) Asset exchange transaction TBEXAM.COM

D) Claims exchange transaction

70) Revenue on account amounted to \$6,800. Cash collections of accounts receivable amounted to \$6,500. Cash paid for expenses was \$4,400. The amount of employee salaries accrued at the end of the year was \$2,200. What is the net cash flow from operating activities for the year?

A) \$2,400

B) \$8,600

C) \$2,100

D) \$2,200

71) Revenue on account amounted to \$9,000. Cash collections of accounts receivable amounted to \$8,100. Cash paid for expenses was \$7,500. The amount of employee salaries accrued at the end of the year was \$900. What is the net cash flow from operating activities for the year?

A) \$900

B) \$600

C) \$1,500

D) \$8,700

## Survey of Accounting Edition 7 by Edmonds

72) Which of the following accounts would **not** appear on a balance sheet?

- A) Service Revenue.
- B) Salaries Payable.
- C) Unearned Revenue.
- D) Neither Service Revenue nor Unearned Revenue would appear on a balance sheet.

73) Warren Enterprises had the following events during Year 1:

- ☐ The business issued \$22,000 of common stock to its stockholders.
- ☐ The business purchased land for \$14,000 cash.
- ☐ Services were provided to customers for \$18,000 cash.
- ☐ Services were provided to customers for \$7,000 on account.
- ☐ The company borrowed \$18,000 from the bank.
- ☐ Operating expenses of \$14,000 were incurred and paid in cash.
- ☐ Salary expense of \$1,000 was accrued.
- ☐ A dividend of \$6,000 was paid to the stockholders of Warren Enterprises.

Assuming the company began operations during Year 1, What is the amount of retained earnings as of December 31, Year 1?

- A) \$3,800
- B) \$25,000
- C) \$12,000
- D) \$4,000

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74) Warren Enterprises had the following events during Year 1:

- ☐ The business issued \$40,000 of common stock to its stockholders.
- ☐ The business purchased land for \$24,000 cash.
- ☐ Services were provided to customers for \$32,000 cash.
- ☐ Services were provided to customers for \$10,000 on account.
- ☐ The company borrowed \$32,000 from the bank.
- ☐ Operating expenses of \$24,000 were incurred and paid in cash.
- ☐ Salary expense of \$1,600 was accrued.
- ☐ A dividend of \$8,000 was paid to the stockholders of Warren Enterprises.

Assuming the company began operations during Year 1, what is the amount of retained earnings as of December 31, Year 1?

- A) \$10,000
- B) \$8,400
- C) \$16,400
- D) \$42,000

## Survey of Accounting Edition 7 by Edmonds

- 75) Which of the following would cause net income on the accrual basis to be different from (either higher or lower than) the amount of net cash flow for operating activities on the statement of cash flows?
- A) Purchased land for cash
  - B) Purchased supplies for cash
  - C) Paid advertising expense
  - D) Paid dividends to stockholders
- 76) Rushmore Company provided services for \$31,500 cash during Year 1. Rushmore incurred \$23,000 expenses on account during Year 1, and by the end of the year, \$8,500 of that amount had been paid with cash. Assuming that these are the only accounting events that affected Rushmore during Year 1, which of the following statements is true?
- A) The amount of net income shown on the income statement is \$14,500.
  - B) The amount of net loss shown on the income statement is \$8,500.
  - C) The amount of net cash flow from operating activities shown on the statement of cash flows is \$17,000.
  - D) The amount of net income shown on the income statement is \$8,500.
- 77) Rushmore Company provided services for \$45,000 cash during Year 1. Rushmore incurred \$36,000 expenses on account during Year 1, and by the end of the year, \$9,000 of that amount had been paid with cash. Assuming that these are the only accounting events that affected Rushmore during Year 1, which of the following statements is true?
- A) The amount of net loss shown on the income statement is \$9,000.
  - B) The amount of net income shown on the income statement is \$27,000.
  - C) The amount of net income shown on the income statement is \$9,000.
  - D) The amount of net cash flow from operating activities shown on the statement of cash flows is \$18,000.
- 78) The following pre-closing accounts and balances were drawn from the records of Carolina Company on December 31, Year 1:
- |                         |          |                            |        |
|-------------------------|----------|----------------------------|--------|
| <b>Cash</b>             | \$ 1,400 | <b>Accounts receivable</b> | \$ 950 |
| <b>Dividends</b>        | 700      | <b>Common stock</b>        | 1,175  |
| <b>Land</b>             | 1,000    | <b>Revenue</b>             | 1,000  |
| <b>Accounts payable</b> | 550      | <b>Expense</b>             | 650    |
- What is the amount of total assets on Carolina's December 31, Year 1 balance sheet?
- A) \$4,050
  - B) \$3,350
  - C) \$4,350
  - D) \$2,400

## Survey of Accounting Edition 7 by Edmonds

- 79) The following pre-closing accounts and balances were drawn from the records of Carolina Company on December 31, Year 1:

|                         |          |                            |          |
|-------------------------|----------|----------------------------|----------|
| <b>Cash</b>             | \$ 4,000 | <b>Accounts receivable</b> | \$ 3,400 |
| <b>Dividends</b>        | 2,000    | <b>Common stock</b>        | 3,900    |
| <b>Land</b>             | 3,200    | <b>Revenue</b>             | 3,200    |
| <b>Accounts payable</b> | 1,800    | <b>Expense</b>             | 2,200    |

What is the amount of total assets on Carolina's December 31, Year 1 balance sheet?

- A) \$12,600
- B) \$13,800
- C) \$7,200
- D) \$10,600

- 80) The following pre-closing accounts and balances were drawn from the records of Carolina Company on December 31, Year 1:

|                         |          |                            |          |
|-------------------------|----------|----------------------------|----------|
| <b>Cash</b>             | \$ 3,800 | <b>Accounts receivable</b> | \$ 1,550 |
| <b>Dividends</b>        | 1,900    | <b>Common stock</b>        | 2,375    |
| <b>Land</b>             | 2,200    | <b>Revenue</b>             | 2,200    |
| <b>Accounts payable</b> | 1,150    | <b>Expense</b>             | 1,250    |

What is net income that will be shown on Carolina's Year 1 income statement?

- A) \$950
- B) \$1,250
- C) \$750
- D) \$2,200

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- 81) The following pre-closing accounts and balances were drawn from the records of Carolina Company on December 31, Year 1:

|                         |          |                            |          |
|-------------------------|----------|----------------------------|----------|
| <b>Cash</b>             | \$ 4,000 | <b>Accounts receivable</b> | \$ 3,400 |
| <b>Dividends</b>        | 2,000    | <b>Common stock</b>        | 3,900    |
| <b>Land</b>             | 3,200    | <b>Revenue</b>             | 3,200    |
| <b>Accounts payable</b> | 1,800    | <b>Expense</b>             | 2,200    |

What is net income that will be shown on Carolina's Year 1 income statement?

- A) \$2,200
- B) \$3,200
- C) \$1,000
- D) \$200

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82) The following pre-closing accounts and balances were drawn from the records of Carolina Company on December 31, Year 2:

|                         |          |                            |        |
|-------------------------|----------|----------------------------|--------|
| <b>Cash</b>             | \$ 1,200 | <b>Accounts receivable</b> | \$ 900 |
| <b>Dividends</b>        | 600      | <b>Common stock</b>        | 1,075  |
| <b>Land</b>             | 900      | <b>Revenue</b>             | 900    |
| <b>Accounts payable</b> | 500      | <b>Expense</b>             | 600    |

What is the amount of retained earnings that will be shown on the balance sheet at December 31, Year 2?

- A) \$1,725
- B) \$2,100
- C) \$1,125
- D) \$1,425

83) The following pre-closing accounts and balances were drawn from the records of Carolina Company on December 31, Year 2:

|                         |          |                            |          |
|-------------------------|----------|----------------------------|----------|
| <b>Cash</b>             | \$ 4,000 | <b>Accounts receivable</b> | \$ 3,400 |
| <b>Dividends</b>        | 2,000    | <b>Common stock</b>        | 3,900    |
| <b>Land</b>             | 3,200    | <b>Revenue</b>             | 3,200    |
| <b>Accounts payable</b> | 1,800    | <b>Expense</b>             | 2,200    |

What is the amount of retained earnings that will be shown on the balance sheet at December 31, Year 2?

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- A) \$5,900
- B) \$7,200
- C) \$3,900
- D) \$4,900

84) Nelson Company experienced the following transactions during Year 1, its first year in operation.

- ☐ Issued \$7,800 of common stock to stockholders
- ☐ Provided \$4,100 of services on account
- ☐ Paid \$2,050 cash for operating expenses
- ☐ Collected \$2,800 of cash from accounts receivable
- ☐ Paid a \$190 cash dividend to stockholders

What is the net income that will be reported for Year 1?

- A) \$1,300
- B) \$2,050
- C) \$1,490
- D) \$1,860

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85) Nelson Company experienced the following transactions during Year 1, its first year in operation.

- ☐ Issued \$12,000 of common stock to stockholders
- ☐ Provided \$4,600 of services on account
- ☐ Paid \$3,200 cash for operating expenses
- ☐ Collected \$3,800 of cash from accounts receivable
- ☐ Paid a \$200 cash dividend to stockholders

What is the net income that will be reported for Year 1?

- A) \$1,400
- B) \$800
- C) \$1,000
- D) \$1,200

86) Nelson Company experienced the following transactions during Year 1, its first year in operation.

- ☐ Issued \$9,000 of common stock to stockholders
- ☐ Provided \$5,300 of services on account
- ☐ Paid \$2,350 cash for operating expenses
- ☐ Collected \$3,400 of cash from accounts receivable
- ☐ Paid a \$250 cash dividend to stockholders

What is the of net cash flow from operating activities shown on the Year 1 statement of cash flows?

- A) \$800
- B) \$1,050
- C) \$2,950
- D) \$2,700

87) Nelson Company experienced the following transactions during Year 1, its first year in operation.

- ☐ Issued \$12,000 of common stock to stockholders
- ☐ Provided \$4,600 of services on account
- ☐ Paid \$3,200 cash for operating expenses
- ☐ Collected \$3,800 of cash from accounts receivable
- ☐ Paid a \$200 cash dividend to stockholders

What is the of net cash flow from operating activities shown on the Year 1 statement of cash flows?

- A) \$400
- B) \$600
- C) \$1,400
- D) \$1,200

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88) Nelson Company experienced the following transactions during Year 1, its first year in operation.

- ☐ Issued \$6,600 of common stock to stockholders
- ☐ Provided \$2,900 of services on account
- ☐ Paid \$1,750 cash for operating expenses
- ☐ Collected \$2,200 of cash from accounts receivable
- ☐ Paid a \$130 cash dividend to stockholders

What is the total amount of assets shown on the balance sheet prepared as of December 31, Year 1?

- A) \$7,750
- B) \$6,920
- C) \$7,180
- D) \$7,620

89) Nelson Company experienced the following transactions during Year 1, its first year in operation.

- ☐ Issued \$12,000 of common stock to stockholders
- ☐ Provided \$4,600 of services on account
- ☐ Paid \$3,200 cash for operating expenses
- ☐ Collected \$3,800 of cash from accounts receivable
- ☐ Paid a \$200 cash dividend to stockholders

What is the total amount of assets shown on the balance sheet prepared as of December 31, Year 1?

- A) \$12,400
- B) \$12,600
- C) \$13,400
- D) \$13,200

## Survey of Accounting Edition 7 by Edmonds

90) Nelson Company experienced the following transactions during Year 1, its first year in operation.

- ☐ Issued \$7,200 of common stock to stockholders
- ☐ Provided \$3,500 of services on account
- ☐ Paid \$1,900 cash for operating expenses
- ☐ Collected \$2,500 of cash from accounts receivable
- ☐ Paid a \$160 cash dividend to stockholders

What is the amount of retained earnings that will be shown on the company's balance sheet prepared as of December 31, Year 1?

- A) \$1,440
- B) \$8,640
- C) \$1,160
- D) \$1,600

91) Nelson Company experienced the following transactions during Year 1, its first year in operation.

- ☐ Issued \$12,000 of common stock to stockholders.
- ☐ Provided \$4,600 of services on account.
- ☐ Paid \$3,200 cash for operating expenses.
- ☐ Collected \$3,800 of cash from accounts receivable.
- ☐ Paid a \$200 cash dividend to stockholders.

What is the amount of retained earnings that will be shown on the company's balance sheet prepared as of December 31, Year 1?

- A) \$1,200
- B) \$1,000
- C) \$1,400
- D) \$13,200

## Survey of Accounting Edition 7 by Edmonds

- 92) On December 31, Year 1, Gaskins Company owed \$4,500 in salaries to employees who had worked during December but would be paid in January. If the year-end adjustment is properly recorded on December 31, Year 1, what will be the effect of this accrual on the following items for Gaskins?

|    | <b>Net Income</b> | <b>Cash Flow from Operating Activities</b> |
|----|-------------------|--------------------------------------------|
| a. | Not Affected      | Not Affected                               |
| b. | Decrease          | Not Affected                               |
| c. | Increase          | Decrease                                   |
| d. | No effect         | Decrease                                   |
|    | A) Option A       |                                            |
|    | B) Option B       |                                            |
|    | C) Option C       |                                            |
|    | D) Option D       |                                            |

- 93) ABC Company ended Year 1 with the following account balances:

Cash \$600, Common Stock \$400, and Retained Earnings \$200.

The following transactions occurred during Year 2:

- ☐ Issued common stock for \$19,000 cash.
- ☐ ABC borrowed an additional \$11,000 from Chris Bank.
- ☐ ABC earned \$9,000 of revenue on account.
- ☐ ABC incurred \$4,000 of operating expenses on account.
- ☐ Cash collections of accounts receivables were \$6,000.
- ☐ ABC provided additional services to customers for \$1,000 cash.
- ☐ ABC purchased land for \$14,000.
- ☐ ABC used \$3,000 in cash to make a partial payment on its accounts payable.
- ☐ ABC declared and paid a \$200 dividend to the stockholders
- ☐ On December 31 ABC had accrued salaries of \$4,000.

What is the amount of net income (loss) reported on the December 31, Year 2 income statement?

- A) \$6,200
- B) \$5,800
- C) \$6,000
- D) \$2,000
- E) None of these answer choices is correct

## Survey of Accounting Edition 7 by Edmonds

94) ABC Company ended Year 1 with the following account balances:

Cash \$600, Common Stock \$400, and Retained Earnings \$200.

The following transactions occurred during Year 2:

- ☐ Issued common stock for \$19,000 cash.
- ☐ ABC borrowed an additional \$11,000 from Chris Bank.
- ☐ ABC earned \$9,000 of revenue on account.
- ☐ ABC incurred \$4,000 of operating expenses on account.
- ☐ Cash collections of accounts receivables were \$6,000.
- ☐ ABC provided additional services to customers for \$1,000 cash.
- ☐ ABC purchased land for \$14,000.
- ☐ ABC used \$3,000 in cash to make a partial payment on its accounts payable.
- ☐ ABC declared and paid a \$200 dividend to the stockholders
- ☐ On December 31 ABC had accrued salaries of \$4,000.

What is the net cash flow from operating activities shown on the statement of cash flows for the year ending December 31, Year 2?

- A) \$4,000
- B) \$3,800
- C) \$6,000
- D) None of these answer choices is correct

95) ABC Company ended Year 1 with the following account balances:

Cash \$600, Common Stock \$400, and Retained Earnings \$200.

The following transactions occurred during Year 2:

- ☐ Issued common stock for \$19,000 cash.
- ☐ ABC borrowed an additional \$11,000 from Chris Bank.
- ☐ ABC earned \$9,000 of revenue on account.
- ☐ ABC incurred \$4,000 of operating expenses on account.
- ☐ Cash collections of accounts receivables were \$6,000.
- ☐ ABC provided additional services to customers for \$1,000 cash.
- ☐ ABC purchased land for \$14,000.
- ☐ ABC used \$3,000 in cash to make a partial payment on its accounts payable.
- ☐ ABC declared and paid a \$200 dividend to the stockholders
- ☐ On December 31 ABC had accrued salaries of \$4,000.

What is the amount of retained earnings that will be shown on the balance sheet prepared at the end of Year 2?

- A) \$2,000
- B) \$5,800
- C) \$6,000
- D) \$6,200

## Survey of Accounting Edition 7 by Edmonds

- 96) Duluth Company collected a \$6,000 cash advance from a customer on November 1, Year 1 for work to be performed over a six-month period beginning on that date. If the year-end adjustment is properly recorded, what will be the effect of the adjusting entry on Duluth's Year 1 financial statements?
- A) Increase assets and decrease liabilities
  - B) Increase assets and increase revenues
  - C) Decrease liabilities and increase revenues
  - D) No effect
- 97) Gomez Company collected \$23,700 on September 1, Year 1 from a customer for services to be provided over a one-year period beginning on that date. How much revenue would Gomez Company report related to this contract on its income statement for the year ended December 31, Year 1? How much would it report as cash flows from operating activities for Year 1?
- A) Revenue of \$7,900; Cash flow from operating activities of \$7,900
  - B) Revenue of \$7,900; Cash flow from operating activities of \$23,700
  - C) Revenue of \$0; Cash flow from operating activities of \$23,700
  - D) Revenue of \$23,700; Cash flow from operating activities of \$23,700
- 98) Gomez Company collected \$9,000 on September 1, Year 1 from a customer for services to be provided over a one-year period beginning on that date. How much revenue would Gomez Company report related to this contract on its income statement for the year ended December 31, Year 1? How much would it report as cash flows from operating activities for Year 1?
- A) Revenue of \$3,000; Cash flow from operating activities of \$3,000
  - B) Revenue of \$9,000; Cash flow from operating activities of \$9,000
  - C) Revenue of \$3,000; Cash flow from operating activities of \$9,000
  - D) Revenue of \$0; Cash flow from operating activities of \$9,000
- 99) What types of accounts are "matched" when the matching concept is used in a discussion of accrual accounting?
- A) Expenses and revenues
  - B) Expenses and liabilities
  - C) Assets and stockholders' equity
  - D) Assets and liabilities
- 100) The matching concept most significantly influences which financial statement?
- A) Balance sheet
  - B) Income statement
  - C) Statement of changes in stockholders' equity
  - D) Statement of cash flows

## Survey of Accounting Edition 7 by Edmonds

- 101) What is the term commonly used to describe expenses that are matched with the period in which they are incurred?
- A) Market expenses
  - B) Matching expenses
  - C) Period costs
  - D) Working costs
- 102) If retained earnings decreased for the year, and no dividends were paid, which of the following must be true?
- A) Expenses for the year exceeded revenues.
  - B) The company did not have enough cash to pay its expenses.
  - C) Total stockholders' equity increased.
  - D) Liabilities increased during the year.
- 103) Which of the following correctly states the proper order of the accounting cycle?
- A) Record transactions, adjust accounts, close temporary accounts, prepare statements.
  - B) Adjust accounts, record transactions, close temporary accounts, prepare statements.
  - C) Record transactions, adjust accounts, prepare statements, close temporary accounts.
  - D) Adjust accounts, prepare statements, record transactions, close temporary accounts.
- 104) What is the primary goal of the accrual basis of accounting?
- A) Report revenue when received.
  - B) Match assets and liabilities in the proper period.
  - C) Report expenses when cash disbursements are made.
  - D) Match revenues and expenses in the proper period.
- 105) Which of the following financial statement elements is closed at the end of an accounting cycle?
- A) Dividends
  - B) Common stock
  - C) Assets
  - D) Liabilities
- 106) Which of the following accounts is **not** closed at the end of an accounting cycle?
- A) Revenues
  - B) Retained earnings
  - C) Dividends
  - D) Expenses

## Survey of Accounting Edition 7 by Edmonds

- 107) Which of the following statements about the balance in a revenue account at the beginning of an accounting period is true?
- A) The beginning balance of a revenue account will always be zero.
  - B) The beginning balance of a revenue account equals last period's ending balance.
  - C) The beginning balance of a revenue account will always be higher than the previous periods ending balance.
  - D) The beginning balance of a revenue account will equal to the amount of retained earnings for the previous period.

- 108) Which of the following shows how receiving cash for services that will be performed in the future affects the company's financial statements?

|    | Balance Sheet                 |   | Income Statement    |            | Statement of |
|----|-------------------------------|---|---------------------|------------|--------------|
|    | Assets = Liabilities + Equity |   | Revenue - Expense = |            | Cash Flows   |
|    |                               |   |                     | Net Income |              |
| A. | +                             | - | +                   | +          | +OA          |
| B. | +                             | + | +                   | +          | +OA          |
| C. | +                             | - |                     |            |              |
| D. | +                             | + |                     |            | +OA          |

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- A) Option A
- B) Option B
- C) Option C
- D) Option D

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- 109) Allen Company received \$12,000 cash from Gerry Corporation for cleaning services that Allen agrees to perform over a one-year period beginning on June 1, Year 1. How would the adjustment on December 31, Year 1 to recognize the portion of the revenue that Allen earned during Year 1 affect Allen Company's financial statements?

|    | Balance Sheet |                      | Income Statement |                       | Statement     |
|----|---------------|----------------------|------------------|-----------------------|---------------|
|    | Assets        | Liabilities + Equity | Revenue          | Expenses = Net Income | of Cash Flows |
|    |               |                      |                  |                       |               |
| A. | (7,000)       | 7,000                | 7,000            |                       | 7,000         |
| B. | (7,000)       | 7,000                |                  |                       |               |
| C. | 12,000        | 12,000               | 12,000           |                       | 12,000        |
| D. | (6,000)       | 6,000                | 6,000            |                       | 6,000         |

- A) Option A  
B) Option B  
C) Option C  
D) Option D

- 110) On October 1 of Year 1, Zeta Company collected \$1,608 cash for services to be provided for one year beginning immediately. The company's fiscal closing date is December 31. Based on this information, the amount of revenue appearing on the Year 1 income statement would be:

- A) \$402.  
B) \$1,206.  
C) \$1,608.  
D) \$1,072.

- 111) On August 1 of Year 1, Accounting Associates collected \$1,656 cash for consulting services to be provided for one year beginning immediately. The company's fiscal closing date is December 31. Based on this information, the amount of unearned revenue appearing on the December 31, Year 2 balance sheet would be

- A) \$1,656.  
B) \$690.  
C) \$966.  
D) zero.

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- 112) On May 1 of Year 1, Matthew Company collected \$3,360 cash for services to be provided for one year beginning immediately. The company's fiscal closing date is December 31. Based on this information, the amount of service revenue and the cash flow from operating activities shown on the Year 1 financial statements would be:

|    |                        |                  |
|----|------------------------|------------------|
| A) | <b>Service Revenue</b> | <b>Cash Flow</b> |
|    | \$3,360                | \$1,120          |
| B) | <b>Service Revenue</b> | <b>Cash Flow</b> |
|    | \$3,360                | \$2,240          |
| C) | <b>Service Revenue</b> | <b>Cash Flow</b> |
|    | \$2,240                | \$1,120          |
| D) | <b>Service Revenue</b> | <b>Cash Flow</b> |
|    | \$2,240                | \$3,360          |

- 113) On June 1 of Year 1, Zoe Company collected \$2,760 cash for medical services to be provided for one year beginning immediately. The company's fiscal closing date is December 31. Based on this information, the amount of unearned revenue and service revenue shown on the Year 1 financial statements would be:

|    |                         |                        |
|----|-------------------------|------------------------|
| A) | <b>Unearned Revenue</b> | <b>Service Revenue</b> |
|    | zero                    | \$2,760                |
| B) | <b>Unearned Revenue</b> | <b>Service Revenue</b> |
|    | \$1,150                 | \$1,610                |
| C) | <b>Unearned Revenue</b> | <b>Service Revenue</b> |
|    | \$1,610                 | \$1,150                |
| D) | <b>Unearned Revenue</b> | <b>Service Revenue</b> |
|    | \$2,760                 | zero                   |

## Survey of Accounting Edition 7 by Edmonds

114) Alpha Company's December 31, Year 1 balance sheet showed \$2,450 cash, \$1,750 common stock, and \$850 retained earnings. The company experienced the following event during Year 2.

1. (1) On March 1, paid \$1,560 to purchase insurance coverage for one year beginning immediately.

Based on this information alone,

- A) the Year 2 balance sheet would show \$1,300 of insurance expense.
- B) the Year 2 income statement would show \$1,300 of prepaid insurance.
- C) the Year 2 income statement would show \$260 of insurance expense.
- D) the Year 2 balance sheet would show \$260 of prepaid insurance.

115) Alpha Company's December 31, Year 1 balance sheet showed \$2,350 cash, \$1,650 common stock, and \$830 retained earnings. The company experienced the following event during Year 2.

1. (1) On March 1, paid \$1,512 to purchase insurance coverage for one year beginning immediately.

Based on this information alone,

- A) the Year 3 statement of cash flows would show zero outflow to purchase insurance.
- B) the Year 2 income statement would show \$252 of insurance expense.
- C) the Year 3 income statement would show \$1,260 of insurance expense.
- D) the Year 2 statement of cash flows would show \$1,260 outflow to purchase insurance.

116) Brown Company's December 31, Year 1 balance sheet showed \$2,550 cash, \$350 accounts payable, \$900 common stock, and \$1,750 retained earnings. The company experienced the following events during year 2.

1. (1) On April 1, Year 2 the company paid \$3,600 cash to rent office space for the coming year starting immediately.
2. (2) Earned \$3,200 cash revenue.
3. (3) Paid a \$600 cash dividend.

Based on this information, the company would report a(n)

- A) \$2,100 balance in retained earnings on the Year 2 balance sheet.
- B) \$3,200 net cash outflow from operating activities on the Year 2 statement of cash flows.
- C) \$2,700 balance in a prepaid rent account on the Year 2 balance sheet.
- D) None of the answers are correct.

# Survey of Accounting Edition 7 by Edmonds

- 117) Which of the following describes the effects of a claims exchange transaction on a company's financial statements?

|    | Balance Sheet                 |   |   | Income Statement    |   |               | Statement of |
|----|-------------------------------|---|---|---------------------|---|---------------|--------------|
|    | Assets = Liabilities + Equity |   |   | Revenue - Expense = |   |               | Cash Flows   |
|    |                               |   |   |                     |   | Net<br>Income |              |
| A. |                               |   |   |                     |   |               | +OA          |
| B. | +                             |   | + |                     |   |               | +OA          |
| C. |                               | + |   | -                   | + | -             |              |
| D. |                               |   |   |                     |   |               | +OA          |

- A) Option A  
B) Option B  
C) Option C  
D) Option D

- 118) Which of the following is an asset source transaction?

- A) Issued common stock.  
B) Paid a cash dividend to stockholders.  
C) Received a payment on accounts receivable.  
D) Accrued salary expense.

- 119) Which of the following is an asset use transaction?

- A) Purchased machine for cash.  
B) Recorded insurance expense at the end of the period.  
C) Invested cash in an interest earning account.  
D) Accrued salary expense at the end of the period.

- 120) Which of the following is a claims exchange transaction?

- A) Recognized revenue earned on a contract where the cash had been collected at an earlier date.  
B) Issued common stock.  
C) Invested cash in an interest earning account.  
D) Purchased machine for cash.

## Survey of Accounting Edition 7 by Edmonds

- 121) Which of the following is an asset exchange transaction?
- A) Issued common stock.
  - B) Accrued salary expense at the end of the accounting period.
  - C) Collected cash on accounts receivable.
  - D) Recognized revenue earned on a contract where the cash had been collected at an earlier date.
- 122) Earning revenue on account would be classified as a/an?
- A) claims exchange transaction.
  - B) asset use transaction.
  - C) asset source transaction.
  - D) asset exchange transaction.

**SHORT ANSWER. Write the word or phrase that best completes each statement or answers the question.**

- 123) Indicate how each event affects the elements of financial statements. Use the following letters to record your answer in the box shown below each element. If an event increases one account and decreases another account equally within the same element, record I/D. If an event has no impact on the element, record NA. You do not need to enter amounts.

Increase = I Decrease = D Not Affected = NA

Banks Company performed \$5,000 of services for customers on account.

|                                                    |                                       |                      |
|----------------------------------------------------|---------------------------------------|----------------------|
| <b>Balance Sheet</b>                               | <b>Income Statement</b>               | <b>Statement</b>     |
| <b>Assets = Liabilities + Stockholders' Equity</b> | <b>Revenue - Expense = Net Income</b> | <b>of Cash Flows</b> |

## Survey of Accounting Edition 7 by Edmonds

- 124) Indicate how each event affects the elements of financial statements. Use the following letters to record your answer in the box shown below each element. If an event increases one account and decreases another account equally within the same element, record I/D. If an event has no impact on the element, record NA. You do not need to enter amounts.

Increase = I Decrease = D Not Affected = NA

Todd Company collected \$2,000 cash from accounts receivable.

|                                             |                            |                     |
|---------------------------------------------|----------------------------|---------------------|
| <b>Balance Sheet</b>                        | <b>Income Statement</b>    | <b>Statement</b>    |
| <b>Assets = Liabilities + Stockholders'</b> | <b>Revenue - Expense =</b> | <b>of Cash</b>      |
| <b>Equity</b>                               | <b>Net</b>                 | <b>Income Flows</b> |

- 125) Indicate how each event affects the elements of financial statements. Use the following letters to record your answer in the box shown below each element. If an event increases one account and decreases another account equally within the same element, record I/D. If an event has no impact on the element, record NA. You do not need to enter amounts.

Increase = I Decrease = D Not Affected = NA

Ingstrom Company provided \$2,600 of services for a customer who paid \$1,000 cash immediately and promised to pay an additional \$1,600 one month later.

|                                             |                            |                     |
|---------------------------------------------|----------------------------|---------------------|
| <b>Balance Sheet</b>                        | <b>Income Statement</b>    | <b>Statement</b>    |
| <b>Assets = Liabilities + Stockholders'</b> | <b>Revenue - Expense =</b> | <b>of Cash</b>      |
| <b>Equity</b>                               | <b>Net</b>                 | <b>Income Flows</b> |

## Survey of Accounting Edition 7 by Edmonds

- 126) Indicate how each event affects the elements of financial statements. Use the following letters to record your answer in the box shown below each element. If an event increases one account and decreases another account equally within the same element, record I/D. If an event has no impact on the element, record NA. You do not need to enter amounts.

Increase = I Decrease = D Not Affected = NA

Amity Company signed contracts for \$25,000 of services to be performed in the future.

|                                                    |                                       |                      |
|----------------------------------------------------|---------------------------------------|----------------------|
| <b>Balance Sheet</b>                               | <b>Income Statement</b>               | <b>Statement</b>     |
| <b>Assets = Liabilities + Stockholders' Equity</b> | <b>Revenue - Expense = Net Income</b> | <b>of Cash Flows</b> |

- 127) Indicate how each event affects the elements of financial statements. Use the following letters to record your answer in the box shown below each element. If an event increases one account and decreases another account equally within the same element, record I/D. If an event has no impact on the element, record NA. You do not need to enter amounts.

Increase = I Decrease = D Not Affected = NA

At the end of the accounting period, Signet Company recognized accrued salaries.

|                                                    |                                       |                      |
|----------------------------------------------------|---------------------------------------|----------------------|
| <b>Balance Sheet</b>                               | <b>Income Statement</b>               | <b>Statement</b>     |
| <b>Assets = Liabilities + Stockholders' Equity</b> | <b>Revenue - Expense = Net Income</b> | <b>of Cash Flows</b> |

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- 128) Indicate how each event affects the elements of financial statements. Use the following letters to record your answer in the box shown below each element. If an event increases one account and decreases another account equally within the same element, record I/D. If an event has no impact on the element, record NA. You do not need to enter amounts.

Increase = I Decrease = D Not Affected = NA

Calloway Company received \$750 from a customer for services to be performed at a future date.

| Balance Sheet                                      | Income Statement                      | Statement            |
|----------------------------------------------------|---------------------------------------|----------------------|
| <b>Assets = Liabilities + Stockholders' Equity</b> | <b>Revenue - Expense = Net Income</b> | <b>of Cash Flows</b> |

- 129) When is revenue recognized under accrual accounting?

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- 130) What does the balance in accounts receivable represent?

- 131) When are expenses recognized under accrual accounting in relation to the payment of cash?

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- 132) What is the effect on the accounting equation of a cash payment to creditors?
- 133) Why are adjusting entries necessary in an accrual accounting system? What are some common examples?
- 134) What effect does the recording of revenue normally have on total assets?
- 135) What effect does providing services on account have on the statement of cash flows?  
What effect does providing services on account have on the balance sheet?
- 136) Describe the purpose of the closing process.
- 137) Describe the difference between temporary and permanent accounts, and state which ones are closed.

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- 138) Define the accounting cycle and list the stages of the cycle.
- 139) Explain the meaning of the term, "matching concept."
- 140) The temporary accounts are closed prior to the start of the next accounting cycle. In this closing process, the amounts in each of these accounts are transferred to what other account(s)?

**ESSAY. Write your answer in the space provided or on a separate sheet of paper.**

- 141) Vanguard Company uses accrual accounting. Indicate whether each of the following statements regarding Vanguard's accounting system is true or false.
- The recognition of accounting events and the realization of cash consequences must occur in different accounting periods.
  - The cash consequence of a transaction sometimes precedes its accounting recognition.
  - Expenses may either be matched to revenues they produce or to periods in which they are incurred.
  - Vanguard may record accrual transactions, but may not record deferral transactions.
  - Vanguard is not permitted to make cash sales.

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- 142) Wheaton Company performed services for a customer on account. Indicate whether each of the following statements about this transaction is true or false.
- Assets and stockholders' equity both increase when the revenue is recognized.
  - This transaction did not affect cash flows.
  - The company recorded an increase in revenue and a decrease in accounts receivable.
  - Recognition of revenue would be delayed until cash was received.
  - This transaction is an example of an asset exchange transaction.
- 143) XYZ Company used \$5,000 cash to **pay off its accounts payable**. With respect to this event, indicate whether each of the following statements is true or false.
- Total assets would decrease.
  - Expenses would increase.
  - Total liabilities would remain the same.

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- 144) Dixon Company collected cash during December of Year 1 from a customer for services to be performed during January of Year 2. Indicate whether each of the following statements about this transaction is true or false.
- Dixon's Year 2 income statement would not be affected by this transaction.
  - Dixon's Year 1 statement of cash flows would be affected by this transaction.
  - This transaction is an asset exchange transaction.
  - The revenue for the services provided will be recorded in Year 2.
  - The transaction increases Dixon's liabilities.

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- 145) Regarding the relationships of revenues and expenses to assets and liabilities, state whether each of the following statements is true or false.
- Recording an increase in a revenue account may be associated with a decrease in assets.
  - Recording an increase in a revenue account may be associated with a decrease in liabilities.
  - An increase in Salaries Expense may be accompanied by a decrease in Salaries Payable.
  - Recording a decrease in assets may be associated with an increase in an expense account.
  - A decrease in Supplies will be accompanied by an increase in Supplies Expense.
- 146) Wyatt Company paid \$57,000 in January of Year 2 for salaries that had been earned by employees in December of Year 1. Indicate whether each of the following statements about financial statement effects of the January of Year 2 event is true or false.
- The income statement for Year 2 is not affected because the salaries expense had been recognized at the end of December in Year 1.
  - Cash flows from operating activities decreased on the Year 2 statement of cash flows.
  - Payment of the salaries in Year 2 increased a liability.
  - The Year 2 statement of changes in stockholders' equity would not be affected because the salaries expense had been recognized at the end of December in Year 1.
  - Both assets and stockholders' equity decreased in Year 2 as a result of this transaction.

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- 147) Indicate whether each of the following statements about the closing process and the accounting cycle is true or false.
- a. The closing process transfers certain account balances to retained earnings at the end of the accounting cycle.
  - b. Only accounts that appear on the income statement are closed at the end of each accounting cycle.
  - c. The permanent accounts contain information that is cumulative in nature.
  - d. The retained earnings balance at the end of any given year is equal to that year's net income.
- 148) Regarding the effects of end-of-period adjustments, state whether each of the following statements is true or false.
- a. Recording the usage of supplies involves an increase in liabilities and a decrease in stockholders' equity.
  - b. The accrual of salaries is considered a claims exchange transaction.
  - c. Recording services performed on a prepaid contract involves a decrease in liabilities and an increase in assets. [TBEXAM.COM](http://TBEXAM.COM)
  - d. End-of-period adjustments often affect cash flows.
  - e. Failure to record accrued salaries at the end of the year will cause reported net income to be higher than it should have been.

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- 149) Indicate whether each of the following statements regarding the four types of accounting events is true or false.
- Asset exchange transactions involve an increase in one asset and a decrease in another asset.
  - An asset source transaction involves an increase in assets and an increase in a corresponding claims account.
  - An asset use transaction cannot result in an increase in stockholders' equity.
  - Asset exchange transactions cannot affect cash flows.
  - Some claims exchange transactions involve an increase in a liability account and a decrease in an stockholders' equity account.
- 150) Hernandez Company began business operations and experienced the following transactions during the year beginning January 1, Year 1:
- Issued common stock for \$50,000 cash.
  - Provided services to customers for \$125,000 on account.
  - Purchased \$2,500 of supplies on account.
  - Paid \$30,000 cash to rent office space for a 12-month period beginning July 1, Year 1.
  - Collected \$115,000 cash from customers.
  - Paid cash for \$90,000 of operating expenses.
  - Adjusted the accounting records to reflect that there was \$750 of supplies remaining on hand at year-end.
  - Recorded an end-of-year adjustment to recognize rent expense.
- Record the above transactions on a horizontal statements model, reflecting their effect on the different financial statements.
  - Prepare Hernandez Company's income statement, balance sheet and statement of cash flows for the year ended December 31, Year 1.

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- 151) The following transactions apply to Einstein Corporation.
- Issued common stock for \$50,000 cash.
  - Provided services to customers for \$28,000 on account.
  - Purchased land for \$16,000 cash.
  - Purchased \$1,500 of supplies on account.
  - Paid \$12,000 for operating expenses.
  - Paid \$550 on accounts payable.
  - Collected \$25,000 cash from customers.
  - Accrued \$600 of salary expense at year end.
  - Paid \$2,000 dividends to stockholders.
  - Identify the effect on the statement of cash flows for each of the above transactions.
  - Classify the above accounting events into one of four types of transactions (asset source, asset use, asset exchange, claims exchange).
- 152) Record each of the following events in the horizontal statements model. After each event, record the corresponding December 31 **end-of-year adjustment** that would be necessary.
- Paid \$37,000 for a 1-year lease beginning April 1.
  - Paid \$3,100 to purchase supplies. At year end, \$1,500 of supplies remained.
  - Received a \$51,000 cash advance for a 6-month contract beginning on September 1.
- 153) Record each of the following events in the horizontal statements model. After each event, record the corresponding December 31 **end-of-year adjustment** that would be necessary.
- Paid \$36,000 for a 1-year lease beginning April 1.
  - Paid \$3,000 to purchase supplies. At year end, \$1,080 of supplies remained.
  - Received a \$48,000 cash advance for a 6-month contract beginning on September 1.

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- 154) The following data were taken from the accounting records of Li Company at December 31, Year 1 after adjusting entries have been entered. The December 31, Year 1 closing entries have not been made.

|                            |            |
|----------------------------|------------|
| <b>Service revenue</b>     | \$ 166,000 |
| <b>Retained earnings</b>   | 95,000     |
| <b>Accounts receivable</b> | 26,500     |
| <b>Salaries expense</b>    | 88,000     |
| <b>Operating expense</b>   | 15,400     |
| <b>Accounts payable</b>    | 22,800     |
| <b>Supplies expense</b>    | 760        |
| <b>Prepaid rent</b>        | 4,000      |
| <b>Common stock</b>        | 90,000     |
| <b>Supplies</b>            | 400        |
| <b>Dividends</b>           | 2,400      |
| <b>Insurance expense</b>   | 1,600      |
| <b>Rent expense</b>        | 20,000     |
| <b>Unearned revenue</b>    | 1,530      |

**Required:**

- List the accounts that should be closed at the end of Year 1.
- Prepare an income statement for Li Company for Year 1.
- What is the balance in retained earnings after closing?

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155) For each of the following transactions, indicate the type by entering AS for asset source transactions, AU for asset use transactions, AE for asset exchange transactions, and CE for claims exchange transactions.

1. Paid \$2,000 in dividends to its stockholders.
2. Recorded the accrual of \$1,000 in salaries to be paid later.
3. Issued common stock for \$20,000 in cash.
4. Earned revenue to be collected next year.
5. Paid the salaries accrued in number 2 above.
6. Received cash from customers in number 4 above.
7. Purchased supplies on account.
8. Received \$500 from a customer for services to be provided later.

156) Classify each of the following transactions for the purpose of the statement of cash flow as operating activities (OA), investing activities (IA), financing activities (FA), or not reported on the statement of cash flows (NA).

1. Sold land.
2. Made adjusting entry to recognize interest revenue on investments.
3. Borrowed funds from the bank.
4. Paid rent in advance for the next six months.
5. Paid cash to settle accrued salary expense.
6. Purchased supplies on account.
7. Collected accounts receivable.

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157) Maggie Stern started a consulting business, Stern Consulting, on January 1, Year 1 by issuing \$10,200 of common stock. In addition, the following events occurred in Year 1:

- ☐ Provided services on account, \$35,000
- ☐ Paid cash for \$15,000 in operating expenses
- ☐ Collected \$12,000 of the revenue that was previously recorded on account
- ☐ Paid a cash dividend of \$5,000 to the stockholders

**Required:** Show the effects of the above transactions on the accounting equation.

|              | <b>Assets</b> | <b>=</b> | <b>Liabilities</b> | <b>+</b> | <b>Stockholders'</b><br><b>Equity</b> |
|--------------|---------------|----------|--------------------|----------|---------------------------------------|
| 1)           |               |          |                    |          |                                       |
| 2)           |               |          |                    |          |                                       |
| 3)           |               |          |                    |          |                                       |
| 4)           |               |          |                    |          |                                       |
| 5)           |               |          |                    |          |                                       |
| <b>Total</b> |               |          |                    |          |                                       |

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## Survey of Accounting Edition 7 by Edmonds

158) Maggie Stern started a consulting business, Stern Consulting, on January 1, Year 1 by issuing \$9,000 of common stock. In addition, the following events occurred in Year 1:

- ☐ Provided services on account, \$27,500
- ☐ Paid cash for \$13,500 in operating expenses
- ☐ Collected \$11,000 of the revenue that was previously recorded on account
- ☐ Paid a cash dividend of \$5,000 to the stockholders

**Required:** Show the effects of the above transactions on the accounting equation.

|              | <b>Assets</b> | <b>=</b> | <b>Liabilities</b> | <b>+</b> | <b>Stockholders' Equity</b> |
|--------------|---------------|----------|--------------------|----------|-----------------------------|
| 1)           |               |          |                    |          |                             |
| 2)           |               |          |                    |          |                             |
| 3)           |               |          |                    |          |                             |
| 4)           |               |          |                    |          |                             |
| 5)           |               |          |                    |          |                             |
| <b>Total</b> |               |          |                    |          |                             |

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159) Turner Company started its business by issuing \$15,000 of common stock on January 1, Year 1. The company performed \$51,000 of service for customers on account in Year 1. It collected \$47,000 of this amount in Year 1, recorded expenses on account of \$43,000, paid \$27,000 of the payables owed, and paid a \$500 dividend to the stockholders.

**Required:**

- a. What is the amount of total assets at the end of Year 1?
- b. What is the amount of cash on hand at the end of Year 1?
- c. What is the net income for Year 1?
- d. Prepare a balance sheet for Year 1.

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160) Turner Company started its business by issuing \$10,000 of common stock on January 1, Year 1. The company performed \$38,000 of service for customers on account in Year 1. It collected \$32,500 of this amount in Year 1, recorded expenses on account of \$29,500, paid \$21,000 of the payables owed, and paid a \$500 dividend to the stockholders.

**Required:**

- What is the amount of total assets at the end of Year 1?
- What is the amount of cash on hand at the end of Year 1?
- What is the net income for Year 1?
- Prepare a balance sheet for Year 1.

161) The Maryland Corporation was started on January 1, Year 1, with the issuance of \$50,000 of stock. During Year 1, the company provided \$75,000 of services on account and collected \$68,000 of that amount. Maryland incurred \$63,000 of expenses and paid \$50,000 of that amount during Year 1. On December 31, Year 1, Maryland paid investors a \$2,000 cash dividend and accrued \$4,000 of salary expense.

**Required:**

- What is the net income for year ended December 31, Year 1?
- Prepare the company's statement of cash flows for the year ended December 31, Year 1.
- What is the balance in Maryland's retained earnings account after closing?

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- 162) Consider the following independent scenarios:
- On January 1, Year 2, accounts receivable was \$38,000. Cash collected on accounts receivable during Year 2 was \$65,000. On December 31, Year 2, accounts receivable was \$44,000. What were the revenues earned on account during Year 2?
  - On January 1, Year 2, accounts payable was \$19,000. During Year 2, expenses on account were \$73,000. On December 31, Year 2, accounts payable was \$26,000. What was the amount of cash paid on accounts payable during Year 2?
  - On January 1, Year 2, the balance in the prepaid insurance account was \$630; that amount expires in Year 2. On March 1, Year 2, the company paid \$3,600 for insurance coverage for the next 12 months. What was the amount of insurance expense for Year 2?
  - On January 1, Year 2, the balance in the supplies account was \$530. On December 31, Year 2, the company counted \$580 of supplies on hand. The company reported supplies expense in Year 2 of \$4,100. What was the total of supplies purchased during Year 2?
- 163) Consider the following independent scenarios:
- On January 1, Year 2, accounts receivable was \$24,000. Cash collected on accounts receivable during Year 2 was \$55,000. On December 31, Year 2, accounts receivable was \$30,000. What were the revenues earned on account during Year 2?
  - On January 1, Year 2, accounts payable was \$19,000. During Year 2, expenses on account were \$68,000. On December 31, Year 2, accounts payable was \$15,000. What was the amount of cash paid on accounts payable during Year 2?
  - On January 1, Year 2, the balance in the prepaid insurance account was \$480; that amount expires in Year 2. On March 1, Year 2, the company paid \$3,000 for insurance coverage for the next 12 months. What was the amount of insurance expense for Year 2?
  - On January 1, Year 2, the balance in the supplies account was \$550. On December 31, Year 2, the company counted \$400 of supplies on hand. The company reported supplies expense in Year 2 of \$3,300. What was the total of supplies purchased during Year 2?

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164) Oregon Company began operations on January 1, Year 1, by issuing \$10,000 in common stock to the stockholders. On March 1, Year 1, Oregon accepted an advance of \$36,000 to provide services for a one-year period beginning April 1. During Year 1, services in the amount of \$32,000 were provided to customers on account, and 80% of this amount was collected by year-end. During Year 1, operating expenses incurred on account were \$24,000, and 60% of this amount was paid by year-end. During the year, Oregon paid \$1,200 to purchase supplies. By year-end, \$1,080 of the supplies had been used. Dividends to stockholders were \$2,000 during the year. During Year 1, Oregon paid salaries of \$28,000, and on December 31, Year 1, the company accrued salaries of \$2,800.

Oregon recorded all appropriate adjusting entries at year end.

1. What would Oregon report for service revenue for Year 1?
2. What would Oregon report for salaries expense for Year 1?
3. What would Oregon report for supplies expense for Year 1?
4. What would the amount be for net cash flows from operating activities for Year 1?
5. What is the net income for Year 1?
6. What would the balance in the retained earnings account be at December 31, Year 1?

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- 165) In a company's annual report, the reader will find a company's income statement, statement of changes in stockholder's equity, balance sheet, and statement of cash flows. These financial statements can help the reader to answer specific questions. Identify which financial statement would be most useful in answering the following questions. If more than one financial statement can answer the question, please identify all applicable statements.
1. How much cash was collected from accounts receivable during the current year?
  2. What was the total amount of land owned by the company?
  3. What was the total revenue earned by the company during the most recent year?
  4. What were the types of claims that the company has against its assets?
  5. What was the total amount of cash received by the issuance of common stock?
  6. Was the company profitable during the most recent year?
  7. What was the amount of cash dividends paid to the stockholders during the most recent year?
  8. What was the total amount of cash borrowed by the company during the most recent year?
  9. What was the ending balance of retained earnings?
  10. What was the amount of change in the cash balance during the current year?

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- 166) The following events apply to Bowman's Cleaning Service for Year 1.
1. Issued stock for \$44,000 cash.
  2. On May 1, paid \$36,000 for one year's rent in advance.
  3. Purchased on account \$9,800 of supplies to be used in the business.
  4. Performed services of \$74,000 and received cash.
  5. At December 31, adjusted the records for the expired rent.
  6. At December 31, an inventory of supplies showed that \$280 of supplies were still unused.
- Required:** Record the events in general ledger accounts under an accounting equation. (*Note: There is no need to provide appropriate account titles for the Retained Earnings amounts in the last column of the table.*)

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167) The following events apply to Bowman's Cleaning Service for Year 1.

1. Issued stock for \$44,000 cash
2. On May 1, paid \$27,000 for one year's rent in advance
3. Purchased on account \$4,500 of supplies to be used in the business
4. Performed services of \$68,400 and received cash
5. At December 31, adjusted the records for the expired rent
6. At December 31, an inventory of supplies showed that \$660 of supplies were still unused

**Required:** Record the events in general ledger accounts under an accounting equation. (*Note: There is no need to provide appropriate account titles for the Retained Earnings amounts in the last column of the table.*)

168) Using the form below, record each of the following transactions for Mayer Corporation during the year ending December 31, Year 1. (*Note: There is no need to provide appropriate account titles for the Retained Earnings amounts in the last column of the table.*)

- a. November 1: Received cash from clients for services to be performed over the next six months, \$20,000
- b. November 1: Paid \$2,100 for a 12-month insurance policy
- c. December 31: Recorded expiration of two months of the insurance
- d. December 31: Earned \$5,100 of the amount received from clients in November

| Assets |          | = | Liabilities       |                  | + | Stockholders' Equity |                                  |
|--------|----------|---|-------------------|------------------|---|----------------------|----------------------------------|
| Cash   | Supplies |   | Prepaid Insurance | Accounts Payable |   | Unearned Revenue     | Common Stock + Retained Earnings |
| a.     |          |   |                   |                  |   |                      |                                  |
| b.     |          |   |                   |                  |   |                      |                                  |
| c.     |          |   |                   |                  |   |                      |                                  |
| d.     |          |   |                   |                  |   |                      |                                  |

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169) Using the form below, record each of the following transactions for Mayer Corporation during the year ending December 31, Year 1. (*Note: There is no need to provide appropriate account titles for the Retained Earnings amounts in the last column of the table.*)

- November 1: Received cash from clients for services to be performed over the next six months, \$12,000
- November 1: Paid \$1,200 for a 12-month insurance policy
- December 31: Recorded expiration of two months of the insurance
- December 31: Earned \$4,000 of the amount received from clients in November

| Assets |          | = | Liabilities       |                  | + | Stockholders' Equity |                                  |
|--------|----------|---|-------------------|------------------|---|----------------------|----------------------------------|
| Cash   | Supplies |   | Prepaid Insurance | Accounts Payable |   | Unearned Revenue     | Common Stock + Retained Earnings |
| a.     |          |   |                   |                  |   |                      |                                  |
| b.     |          |   |                   |                  |   |                      |                                  |
| c.     |          |   |                   |                  |   |                      |                                  |
| d.     |          |   |                   |                  |   |                      |                                  |

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- 170) In a company's annual report, the reader will find a company's income statement, statement of changes in stockholders' equity, balance sheet, and statement of cash flows. These financial statements can help the reader to answer specific questions. Identify which financial statement would be most useful in answering the following questions. If more than one financial statement can answer the question, please identify all applicable statements.
1. What was the ending balance of retained earnings?
  2. What was the amount of cash dividends paid to the stockholders during the most recent year?
  3. What was the total amount of land owned by the company?
  4. What was the total amount of cash borrowed by the company during the most recent year?
  5. What were the types of claims that the company had against its assets?
  6. What was the total amount of cash received by the issuance of common stock in the current year?
  7. Was the company profitable during the most recent year?
  8. How much cash was collected from accounts receivable during the current year?
  9. What was the total revenue earned by the company during the most recent year?
  10. What was the amount of change in the cash balance during the current year?

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- 171) The following transactions apply to Kellogg Company.
1. Issued common stock for \$35,000 cash.
  2. Provided services to customers for \$41,000 on account.
  3. Purchased land for \$28,000 cash.
  4. Incurred \$39,000 of operating expenses on account.
  5. Collected \$44,000 cash from customers for services provided in event number 2.
  6. Paid \$32,000 on accounts payable.
  7. Paid \$3,300 dividends to stockholders.
- b. Identify the dollar amount effect on the statement of cash flows, if any, for each of the above transactions. Enter NA for items not affected.
- c. Indicate whether each transaction involves operating, investing, or financing activities. Leave the related cell blank for items that do not result in operating, investing, or financing cash flows.

| Event | a. Effect on Statement of Cash Flows | b. Transaction Type |
|-------|--------------------------------------|---------------------|
| 1.    |                                      |                     |
| 2.    |                                      |                     |
| 3.    |                                      |                     |
| 4.    |                                      |                     |
| 5.    |                                      |                     |
| 6.    |                                      |                     |
| 7.    |                                      |                     |

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- 172) The following transactions apply to Kellogg Company.
1. Issued common stock for \$20,000 cash
  2. Provided services to customers for \$38,000 on account
  3. Purchased land for \$15,000 cash
  4. Incurred \$29,000 of operating expenses on account
  5. Collected \$35,000 cash from customers for services provided in event number 2
  6. Paid \$27,000 on accounts payable
  7. Paid \$2,000 dividends to stockholders
- b. Identify the dollar amount effect on the statement of cash flows, if any, for each of the above transactions. Enter NA for items not affected.
- c. Indicate whether each transaction involves operating, investing, or financing activities. Leave the related cell blank for items that do not result in operating, investing, or financing cash flows.

| Event | a. Effect on Statement of Cash Flows | b. Transaction Type |
|-------|--------------------------------------|---------------------|
| 1.    |                                      |                     |
| 2.    |                                      |                     |
| 3.    |                                      |                     |
| 4.    |                                      |                     |
| 5.    |                                      |                     |
| 6.    |                                      |                     |
| 7.    |                                      |                     |

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173) Grant Helton started a consulting business, Grant Consulting, on January 1, Year 1, and the business engaged in the following transactions during the year:

1. Issued \$40,000 of common stock for cash
2. Provided services on account, \$46,500
3. Incurred \$37,500 of operating expense, but only paid \$32,000 of this amount
4. Collected \$39,000 of the revenue that was previously recorded on account
5. Paid a cash dividend of \$4,000 to the stockholders

**Required:** Show the effects of the above transactions on the accounting equation.

| Event  | Assets | = | Liabilities | + | Stock<br>Equity |
|--------|--------|---|-------------|---|-----------------|
| 1)     |        |   |             |   |                 |
| 2)     |        |   |             |   |                 |
| 3)     |        |   |             |   |                 |
| 4)     |        |   |             |   |                 |
| 5)     |        |   |             |   |                 |
| Totals |        |   |             |   |                 |

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174) Pierce Company was founded in Year 1 and engaged in the following transactions:

1. Issued common stock for cash
2. Paid rent in advance for 3 months at a time
3. Purchased supplies on account
4. Collected cash from a customer for services to be provided over a period of 1 year
5. Paid a cash dividend to stockholders
6. Purchased a 2-year fire insurance policy
7. Provided services to customers on account
8. Collected cash from accounts receivable
9. Paid cash for various operating expenses
- b. Which of the above transactions would require adjusting entries at year end?
- c. Why are adjusting entries required before financial statements can be prepared?

175) Jenna Fisk started her business by issuing \$8,000 of common stock on January 1, Year 1. Jenna performed \$18,500 of service on account in Year 1, and she collected \$16,200 of this amount by year end. She paid operating expenses of \$14,900 and paid a \$600 dividend to the stockholders.

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**Required:**

- a. What is the amount of total assets at the end of Year 1?
- b. What is the amount of cash on hand at the end of Year 1?
- c. What is net income for Year 1?
- d. Prepare a balance sheet for December 31, Year 1.

# Survey of Accounting Edition 7 by Edmonds

- 176) The effects of transactions occurring during Year 1 and their related end-of-year adjustments have been recorded below using the accounting equation.

|              | Assets         |                     |              |          | = | Liabilities      |                  | + | Stockholders' Equity |                   |
|--------------|----------------|---------------------|--------------|----------|---|------------------|------------------|---|----------------------|-------------------|
|              | Cash           | Accounts Receivable | Prepaid Rent | Land     |   | Accounts Payable | Unearned Revenue |   | Common Stock         | Retained Earnings |
| 1)           | 8,000          |                     |              |          |   |                  |                  |   | 80,000               |                   |
| 2)           | (20,000)       |                     |              | 20,000   |   |                  |                  |   |                      |                   |
| 3)           |                | 48,000              |              |          |   |                  |                  |   |                      | 48,000            |
| 4)           | 32,000         |                     |              |          |   |                  | 32,000           |   |                      |                   |
| 5)           | 32,000         | (32,000)            |              |          |   |                  |                  |   |                      |                   |
| 6)           | (4,800)        |                     | 4,800        |          |   |                  |                  |   |                      |                   |
| 7)           |                |                     |              |          |   | 24,000           |                  |   |                      | (24,000)          |
| 8)           | 20,000         |                     |              | (20,000) |   |                  |                  |   |                      |                   |
| 9)           |                |                     | (4,000)      |          |   |                  |                  |   |                      | (4,000)           |
| 10)          |                |                     |              |          |   |                  | (20,000)         |   |                      | 20,000            |
| <b>Total</b> | <b>139,200</b> | <b>16,000</b>       | <b>800</b>   | <b>0</b> |   | <b>24,000</b>    | <b>12,000</b>    |   | <b>80,000</b>        | <b>40,000</b>     |

## Required:

- Prepare an income statement for Year 1.
- Prepare a statement of cash flows for Year 1.

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177) Cascade Corporation began business operations and experienced the following transactions during Year 1:

1. Issued common stock for \$20,000 cash
2. Provided services to customers for \$80,000 on account
3. Incurred \$36,000 of operating expenses on account
4. Collected \$46,000 cash from customers
5. Paid \$30,000 on accounts payable

**Required:** Record the above transactions on a horizontal statements model to reflect their effect on Cascade's financial statements. Classify each of the following transactions for the purpose of the statement of cash flow as operating activities (OA), investing activities (IA), or financing activities (FA). If a transaction is not reported on the statement of cash flows, leave that cell blank.

|               | Assets |                     | = | Liabilities      | + | Stockholders' Equity |                   |            |
|---------------|--------|---------------------|---|------------------|---|----------------------|-------------------|------------|
|               | Cash   | Accounts Receivable |   | Accounts Payable |   | Common Stock         | Retained Earnings | Cash Flows |
| 1.            |        |                     |   |                  |   |                      |                   |            |
| 2.            |        |                     |   |                  |   |                      |                   |            |
| 3.            |        |                     |   |                  |   |                      |                   |            |
| 4.            |        |                     |   |                  |   |                      |                   |            |
| 5.            |        |                     |   |                  |   |                      |                   |            |
| <b>Totals</b> |        |                     |   |                  |   |                      |                   |            |

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178) Indicate for each of the following items if the item would be reported on the income statement (IS), statement of changes in stockholders' equity (SE), balance sheet (BS), or statement of cash flows (CF). Some items may appear on more than one statement; if so, identify all applicable statements.

1. Salaries payable
2. Prepaid insurance
3. Dividends paid to stockholders
4. Interest revenue
5. Accounts payable
6. Salaries expense
7. Retained earnings
8. Unearned subscription revenue
9. Cash flows from operating activities
10. Beginning common stock
11. Issued stock to investors for cash
12. Accounts receivable

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179) Classify each of the following transactions for the purpose of the statement of cash flows as operating activities (OA), investing activities (IA), financing activities (FA), or not reported on the statement of cash flows (NA).

1. Collected accounts receivable
2. Made an adjusting entry to accrue salary expense at the end of the year
3. Borrowed funds from the bank
4. Paid cash for this month's rent
5. Paid cash to settle accounts payable
6. Issued common stock for \$30,000 cash
7. Paid cash to acquire land

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180) Tucker Company shows the following transactions for the accounting period ending December 31, Year 1:

1. Sold books to customers for \$68,000 on account
2. Collected \$56,000 from customers
3. Issued common stock for \$16,000 cash
4. Prepaid four months' rent for \$8,800 on October 1, Year 1
5. Purchased supplies for \$21,000 cash
6. Physical count shows \$6,500 of supplies remained on December 31, Year 1
7. Recorded adjustment for prepaid rent used

Show how the above transactions and year-end adjustments affect the accounting equation.

(Note: There is no need to provide appropriate account titles for the Retained Earnings amounts in the last column of the table.)

|               | Assets |                     |              |          | = Liabilities + | Stockholders' Equity |                   |
|---------------|--------|---------------------|--------------|----------|-----------------|----------------------|-------------------|
|               | Cash   | Accounts Receivable | Prepaid Rent | Supplies |                 | Common Stock         | Retained Earnings |
| 1.            |        |                     |              |          |                 |                      |                   |
| 2.            |        |                     |              |          |                 |                      |                   |
| 3.            |        |                     |              |          |                 |                      |                   |
| 4.            |        |                     |              |          |                 |                      |                   |
| 5.            |        |                     |              |          |                 |                      |                   |
| 6.            |        |                     |              |          |                 |                      |                   |
| 7.            |        |                     |              |          |                 |                      |                   |
| <b>Totals</b> |        |                     |              |          |                 |                      |                   |

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181) For each of the following transactions, indicate the type by entering "AS" for asset source transaction, "AU" for asset use transaction, "AE" for asset exchange transaction, and "CE" for claims exchange transaction.

1. Paid \$10,000 for a plot of land
2. Recorded the accrual of \$1,000 in salaries to be paid the following week
3. Issued common stock for \$20,000 in cash
4. Incurred operating expense on account
5. Paid off its accounts payable
6. Earned revenue to be collected at a future date
7. Paid \$2,000 in dividends to its stockholders
8. Received cash from customers in number 6 above
9. Paid the salaries accrued in number 2 above
10. Borrowed money from a local bank

182) Determine whether each of the following events are asset source (AS), asset use (AU), asset exchange (AE), or claims exchange (CE) transactions.

1. Borrowed \$6,000 from creditors [TBEXAM.COM](http://TBEXAM.COM)
2. Issued common stock to investors for \$8,000 cash
3. Paid one year's rent in advance
4. Provided services to customers and received \$35,000 cash
5. Paid creditors \$10,000
6. Received \$3,000 of revenue in advance
7. Provided services to customers on account, \$12,000
8. Collected \$2,000 from accounts receivable
9. Recognized accrued salary expense of \$2,000
10. Adjusted the records for supplies used of \$800

# Survey of Accounting Edition 7 by Edmonds

## Answer Key

Test name: Chapter 02

1) TRUE

Recognition means recording revenue or expense, which results in reporting the event in the financial statements.

2) FALSE

Accrual accounting requires companies to recognize revenue when earned and expense when incurred, regardless of when cash is received or paid.

3) TRUE

Accruals involve events such as earning revenue on account and incurring expense on account, in which earnings is affected before cash is paid or received.

4) TRUE

Accrual basis companies recognize revenue when earned and expense when incurred, regardless of when cash is received or paid.

5) FALSE

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The event decreases assets (cash) and decreases liabilities (salaries payable).

6) FALSE

An increase in an expense, such as salaries expense, may be accompanied by an increase in a liability, such as salaries payable, but it may not be accompanied by a decrease in a liability.

7) TRUE

Revenues and expenses, along with dividends, are temporary accounts.

8) FALSE

All temporary account balances are moved to retained earnings, not net income, in the closing process.

9) FALSE

Revenues, not unearned revenues, are closed.

10) FALSE

All income statement accounts have zero balances after closing the accounts.

11) TRUE

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The accounting cycle includes recording transactions, adjusting the accounts, preparing statements, and closing the accounts.

12) FALSE

Accrual-basis accounting matches expenses with revenues.

13) TRUE

Adjusting entries involve either revenue or expense and a non-cash balance sheet account.

14) FALSE

Asset use transactions can involve a decrease in another asset account, such as supplies or prepaid rent.

15) FALSE

Providing services to customers on account is an asset source transaction that increases the asset accounts receivable.

16) TRUE

In a claims exchange transaction, one claims account increases, and another claims account decreases. This adjusting entry moves an amount from the liability Unearned Revenue account to a revenue account, which increases stockholders' equity (retained earnings). This adjusting entry is a claims exchange event.

17) FALSE

Revenue recognition either causes assets (Cash or Accounts Receivable) to increase or (2) liabilities (Unearned Revenue) to decrease.

18) FALSE

The collection of an account receivable is an asset exchange transaction.

19) B

Accounts receivable is an asset account on the balance sheet.

20) B

Earning revenue on account causes assets (Accounts Receivable) and stockholders' equity (Retained Earnings) to increase on the balance sheet. On the income statement, the increase in revenue increases net income. The cash will be collected in the future. Because cash was not collected or paid, the statement of cash flows is not affected for this event.

21) C

## Survey of Accounting Edition 7 by Edmonds

$\$16,000 \text{ (cash)} + \$8,600 \text{ (accounts receivable)} + \$6,200 \text{ (cash)} - \$6,200 \text{ (accounts receivable)} - \$5,500 \text{ (cash)} = \$19,100 \text{ increase}$

22) A

$\$17,000 \text{ (cash)} + \$8,500 \text{ (accounts receivable)} + \$6,000 \text{ (cash)} - \$6,000 \text{ (accounts receivable)} - \$5,400 \text{ (cash)} = \$20,100 \text{ increase}$

23) B

Earning revenue on account increases assets (accounts receivable) and increases revenue, which increases net income and equity (retained earnings). It does not affect cash flows.

24) A

Collecting cash from customers as payment on accounts receivable is an asset exchange transaction. Total assets are not affected because there is an increase in one asset account (cash) and a decrease in another asset account (accounts receivable). There is no effect on the income statement. There is a cash inflow from operating activities on the statement of cash flows.

25) C

Under accrual accounting, revenue should be recognized in the period in which it is earned regardless of whether cash has or has not been collected. The asset account, Accounts Receivable, increases by \$8,000 and the stockholders' equity account, Retained Earnings, increases by \$8,000.

26) C

The collection of an account receivable is an event that affected the financial statements as indicated because it increased one asset account (Cash) and decreased another asset account (Account Receivable). The amount of total assets is not affected. The company does not recognize revenue when the cash is collected because the revenue was recognized when the service was provided. Therefore, there is no effect on the income statement. It is reported as a cash inflow from operating activities on the statement of cash flows.

27) D

When a company collects an account receivable one asset (cash) increases and another asset (accounts receivable) decreases. The amount of total assets is not affected.

28) A

When \$3,500 cash is collected, the amount of cash collected is removed from the accounts receivable account and placed in the cash account. Therefore, cash increases by \$3,500 and accounts receivable decreases by \$3,500.

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29) D

As stated in the problem, cash collected in Year 1 is \$6,420. The remaining \$720 (\$7,140 – \$6,420) is collected in Year 2. The balance of accounts receivable at the end of Year 1 would be \$720 (\$7,140 total account receivable generated from revenue minus the \$6,420 cash collected). The Year 2 beginning balance is the same as the Year 1 ending balance as determined previously as \$720.

30) C

Accruing salary expense increases liabilities (salaries payable) and increases expenses, which decreases net income and stockholders' equity (retained earnings). It does not affect cash flows.

31) A

While the expense was incurred and recognized in Year 1, the cash payment occurred in Year 2. The Year 2 cash payment would cause the asset account (cash) and the liability account (accounts payable) to decrease.

32) C

When payment is made to settle the obligation for an accrued expense, such as salaries payable, the asset account (cash) decreases and the associated liability account (salaries payable) decreases. Expenses in the current period are not affected because they were recognized in a previous accounting period. Since the cash outflow was caused by a previous period expense recognition it is classified as an operating activity.

33) B

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Event (1) increases total assets (accounts receivable), revenues, and net income by \$10,000.

Event (2) increases total liabilities (accounts payable) and expenses by \$9,000, which decreases net income by \$9,000. The combined effect of the two events is an increase in total assets of \$10,000, an increase in total liabilities of \$9,000, and an increase in net income of \$1,000 (or \$10,000 – \$9,000). The two events did not affect cash; as a result, there is no effect on net cash flows from operating activities.

| Balance Sheet       |                  |                             | Income Statement |                |                | Statement<br>t of<br>Cash<br>Flows |
|---------------------|------------------|-----------------------------|------------------|----------------|----------------|------------------------------------|
| Assets              | = Liabilities    | + Stockholders' Equity      | Revenue          | – Expenses     | = Net Income   |                                    |
| Accounts Receivable | Accounts Payable |                             |                  |                |                |                                    |
| 10,000              | =                | + 10,000                    | 10,000           | –              | = 10,000       | NA                                 |
|                     | 9,000            | + (9,000)                   |                  | – 9,000        | = (9,000)      | NA                                 |
|                     |                  |                             |                  |                | )              |                                    |
| <u>10,000</u>       | =                | <u>9,000</u> + <u>1,000</u> | <u>10,000</u>    | – <u>9,000</u> | = <u>1,000</u> | NA                                 |

As indicated by the totals in the horizontal financial statements model, after the accrued revenue and expense has been recognized total assets amount to \$10,000, net income is \$1,000, and there is no effect on the statement of cash flows.

34) A

Accounts receivable appears in the asset section of the balance sheet.

35) C

Accounts payable appears in the liabilities section of the balance sheet.

36) D

Recognizing revenue on account will cause an increase in an asset account (accounts receivable) that appears on the balance sheet. The recognition will also cause an increase in the revenue account that appears on the income statement. Since cash was not collected or paid, the statement of cash flows is not affected.

37) D

Recognizing accrued salary expense will cause an increase in a liability account (salaries payable) that appears on the balance sheet. The recognition will also cause an increase in the salaries expense account that appears on the income statement. Since cash was not collected or paid, the statement of cash flows is not affected.

38) C

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Collecting an account receivable is an asset exchange event. The balance in the cash account will increase and the balance in the accounts receivable account will decrease. Both of these accounts are shown on the balance sheet. Since the revenue was recognized when it was earned, it will not be recognized again when the cash is collected. Therefore, the income statement is not affected. The cash inflow will be shown in the operating section of the statement of cash flows

39) B

Since the cash was paid for salaries of employees that operate the business, the cash outflow is classified as an operating activity.

40) D

The term deferral describes a revenue or an expense event that is recognized *after* cash has been exchanged. Recording the pre-payment of two years' worth of insurance involves a deferral. The term accrual describes a revenue or an expense event that is recognized *before* cash is exchanged. All of the other answer choices are accruals: interest receivable, accounts payable, and salaries payable.

41) D

Accruing salaries expense increases liabilities (salaries payable) and increases expenses, which decreases net income and stockholders' equity (retained earnings). It does not affect cash flows.

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42) D

Net income = Revenue of \$5,200 – Expenses of \$2,700 = \$2,500

Dividends do not affect the determination of net income.

43) B

Net income = Revenue of \$5,000 – Expenses of \$2,100 = \$2,900

Dividends do not affect the determination of net income

44) A

Recognizing an expense may be accompanied by an increase in liabilities (i.e. accounts payable, salaries payable) or a decrease in assets (i.e. cash, prepaid rent or prepaid insurance).

45) C

Revenue is recognized when earned and expenses are recognized when incurred, regardless of when cash is exchanged.

46) D

Recognizing revenue may be accompanied by either an increase in assets (cash or accounts receivable) or a decrease in liabilities (unearned revenue).

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47) D

Increase in total assets =  $\$45,500 - \$32,400 = \$13,100$ ; Increase in total liabilities =  $\$37,000 - \$32,400 = \$4,600$ ; Increase in total stockholders' equity =  $\$45,500 - \$37,000 = \$8,500$

48) C

Providing services for cash does not require an end-of-year adjusting entry. This transaction would be recorded when the cash is received at the time the service is provided. Supplies and prepaid rent both require end-of-year adjusting entries to recognize expense.

49) C

Recognizing work completed on unearned revenue involves a decrease in liabilities (unearned revenue) and an increase in stockholders' equity (retained earnings as a result of revenue).

50) A

The year-end adjustment to recognize one month's work on the three-month contract results in a \$5,000 decrease in liabilities (unearned revenue) and an increase in stockholder's equity (retained earnings due to recognizing revenue).

51) B

The year-end adjustment to recognize one month's work on the three-month contract results in a \$2,000 decrease in liabilities (unearned revenue) and an increase in stockholders' equity (retained earnings due to recognizing revenue).

52) B

Assets ( $\$5,500 + \$2,600 + \$9,100$ ) = Liabilities ( $\$1,800$ ) + Stockholders' Equity; Stockholders' Equity =  $\$15,400$ ;  $\$15,400 = \text{Common Stock} + \text{Retained Earnings}$  ( $\$3,800 + \$10,600 - \$7,800$ );  $\$15,400 = \text{Common Stock} + \$6,600$ ; Common Stock =  $\$8,800$

53) A

Assets ( $\$8,800 + \$3,000 + \$16,000$ ) = Liabilities ( $\$2,500$ ) + Stockholders' Equity; Stockholders' Equity =  $\$25,300$ ;  $\$25,300 = \text{Common Stock} + \text{Retained Earnings}$  ( $\$5,400 + \$19,000 - \$14,500$ );  $\$25,300 = \text{Common Stock} + \$9,900$ ; Common Stock =  $\$15,400$

54) C

$\$8,450 + \$9,150 + \$1,550 - \$6,000 - \$2,100 - \$1,250 - \$1,850 = \$7,950$

55) C

$\$16,800 + \$21,750 + \$1,800 - \$12,300 - \$3,450 - \$900 - \$2,700 = \$21,000$

56) C

## Survey of Accounting Edition 7 by Edmonds

\$3,500 of supplies on hand is the supplies asset on the balance sheet; \$2,000 beginning balance + \$5,900 of supplies purchased – \$3,500 ending balance = \$4,400 supplies expense

57) C

\$1,400 of supplies on hand is the supplies asset on the balance sheet; \$1,200 beginning balance + \$3,400 of supplies purchased – \$1,400 ending balance = \$3,200 supplies expense

58) D

Purchasing supplies for cash decreases the asset account (cash) and increases the asset account (supplies). Expenses in the current period are not affected because the expense will not be recognized until the supplies are used. There is a cash outflow that is classified as an operating activity.

59) B

Recognizing supplies expense is an asset use transaction. On the balance sheet, the asset account Supplies and the stockholders' equity account Retained Earnings decrease. The recognition of supplies expense would cause the amount of net income shown on the income statement to decrease. There is no effect on the statement of cash flows.

60) A

Since the company started the accounting period with \$630 of supplies and then purchased an additional \$465 of supplies during the accounting period, there was a total amount of \$1,095 (\$630 + \$465) of supplies that were available to be used during the accounting period. Since there were only \$165 of supplies on hand at the end of the accounting period then \$930 (\$1,095 – \$165) had to be used. Assets, in this case supplies, used in the process of producing revenue are called expenses.

61) B

$\$6,000 \times 3/12 = \$1,500$  rent expense; \$6,000 payment on 10/1/Year 1 is a cash outflow for rent

62) C

$\$7,200 \times 3/12 = \$1,800$  rent expense; \$7,200 payment on 10/1/Year 1 is a cash outflow for rent

63) C

Purchasing prepaid rent is an asset exchange transaction. The asset account Cash decreases and the asset account Prepaid Rent increases. Expense recognition is deferred until the office space is used. Because the cash outflow was incurred to operate the business, it is classified as an operating activity on the statement of cash flows.

64) A

## Survey of Accounting Edition 7 by Edmonds

At the end of Year 1, Allen Company is required to expense the amount of office space that has been used. Allen Company paid \$24,000 on October 1, Year 1 to rent office space for one year. The portion of the lease cost that represents using office space from October 1 through December 31 is computed as follows:

$\$24,000 \text{ Cost of annual lease} / 12 \text{ months} = \$2,000 \text{ Cost per month}$

$\$2,000 \text{ Cost per month} \times 3 \text{ months used} = \$6,000 \text{ Rent expense}$

The expense recognition is an asset use transaction. On the balance sheet, assets (Prepaid Rent) and stockholders' equity (Retained Earnings) decrease. The expense recognition reduces the amount of net income shown on the income statement. The statement of cash flows is not affected.

65) B

$\text{Cost per month} = \$1,656 \text{ total} \div 12 \text{ months} = \$138 \text{ per month}$

As of December 31, Year 1:

$\text{Amount used} = \$138 \text{ per month} \times 5 \text{ months} = \$690 \text{ insurance expense}$

$\text{Future benefit} = \$138 \text{ per month} \times 7 \text{ months} = \$966 \text{ prepaid insurance}$

66) B

The cash outflow is not affected by how much of the office space has or has not been used. Since \$3,024 cash was paid in Year 1, there would be a \$3,024 cash outflow from operating activities shown on the Year 1 statement of cash flows. There would be zero cash flow shown on the Year 2 statement of cash flows.

67) D

$\text{Cost per month} = \$3,360 \text{ total} \div 12 \text{ months} = \$280 \text{ per month}$

As of December 31, Year 1:

$\text{Amount used} = \$280 \text{ per month} \times 8 \text{ months} = \$2,240 \text{ insurance expense}$

$\text{Future benefit} = \$280 \text{ per month} \times 4 \text{ months} = \$1,120 \text{ prepaid insurance}$

Since all of the cash was paid in Year 1, the total \$3,360 cash outflow would be shown on the Year 1 statement of cash flows. Zero would be shown in Year 2.

68) D

## Survey of Accounting Edition 7 by Edmonds

Cost per month = \$2,640 total ÷ 12 months = \$220 per month

As of December 31, Year 1:

Amount used = \$220 per month × 7 months = \$1,540 insurance expense

Future benefit = \$220 per month × 5 months = \$1,100 prepaid insurance

As of December 31, Year 2:

Amount used = \$220 per month × 5 months = \$1,100 insurance expense

Since all of the insurance is used by the end of Year 2, there would be a zero balance in the prepaid insurance account at the end of Year 2.

69) C

Purchasing prepaid rent increases one asset (prepaid rent) and decreases another asset (cash). Therefore, it is classified as an asset exchange transaction.

70) C

Net cash flow from operating activities = \$6,500 collected from customers – \$4,400 paid for expenses = \$2,100. Revenue earned on account and accrued salaries are not cash flow activities.

71) B

Net cash flow from operating activities = \$8,100 collected from customers – \$7,500 paid for expenses = \$600. Revenue earned on account and accrued salaries are not cash flow activities.

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72) A

Service revenue is an income statement account. Unearned revenue, despite having the word "revenue" in its title, is a liability account that appears on the balance sheet.

73) D

\$0 beginning balance + \$25,000 revenue – \$15,000 expenses – \$6,000 dividends = \$4,000 ending balance

74) B

\$0 beginning balance + \$42,000 revenue – \$25,600 expenses – \$8,000 dividends = \$8,400 ending balance

75) B

Purchasing supplies for cash is a cash outflow for operating activities, but will not be reported as an expense until the supplies are used. Purchasing land is a cash flow for investing activities and does not affect net income. Paying dividends is a cash flow for financing activities and does not affect net income. Paying advertising expense causes equal decreases in net income and cash flows from operating activities.

## Survey of Accounting Edition 7 by Edmonds

76) D

Net income = \$31,500 revenue – \$23,000 expenses = \$8,500 Revenue is recognized when it is earned and expenses when they are incurred, regardless of when cash changes hands.

77) C

Net income = \$45,000 revenue – \$36,000 expenses = \$9,000

Revenue is recognized when it is earned and expenses when they are incurred, regardless of when cash changes hands.

78) B

Total assets = \$1,400 cash + \$1,000 land + \$950 accounts receivable = \$3,350

79) D

Total assets = \$4,000 cash + \$3,200 land + \$3,400 accounts receivable = \$10,600

80) A

Net income = \$2,200 revenue – \$1,250 expenses = \$950

81) C

Net income = \$3,200 revenue – \$2,200 expenses = \$1,000

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82) D

Assets = Liabilities + Stockholders' Equity;

Assets (\$1,200 + \$900 + \$900) = Liabilities (\$500) + Common Stock (\$1,075) + Retained Earnings (the unknown);

Retained Earnings = \$3,000 – (\$500 + \$1,075); Retained Earnings = \$3,000 – \$1,575 = \$1,425

83) D

Assets = Liabilities + Stockholders' Equity;

Assets (\$4,000 + \$3,400 + \$3,200) = Liabilities (\$1,800) + Common Stock (\$3,900) + Retained Earnings (the unknown);

Retained Earnings = \$10,600 – (\$1,800 + \$3,900);

Retained Earnings = \$10,600 – \$5,700 = \$4,900

84) B

Net income = \$4,100 revenue – \$2,050 expenses = \$2,050 Revenue is recognized when it is earned, regardless of when cash changes hands. Issuing common stock and paying dividends do not affect net income.

85) A

## Survey of Accounting Edition 7 by Edmonds

Net income = \$4,600 revenue – \$3,200 expenses = \$1,400

Revenue is recognized when it is earned, regardless of when cash changes hands. Issuing common stock and paying dividends do not affect net income.

86) B

Net cash flow from operating activities = \$3,400 cash collected from customers – \$2,350 cash paid for expenses = \$1,050

The issue of stock for cash and the payment of dividends are classified as a financing activities.

87) B

Net cash flow from operating activities = \$3,800 cash collected from customers – \$3,200 cash paid for expenses = \$600

The issue of stock for cash and the payment of dividends are classified as a financing activities.

88) D

Total assets = Cash (\$6,600 + \$2,200 – \$1,750 – \$130) + Accounts Receivable (\$2,900 – \$2,200) = \$7,620

89) D

Total assets = Cash (\$12,000 – \$3,200 + \$3,800 – \$200) + Accounts Receivable (\$4,600 – \$3,800) = \$13,200

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90) A

Ending retained earnings = \$0 Beginning retained earnings + \$1,600 Net income – \$160

Dividends = \$1,440

91) A

Ending retained earnings = \$0 Beginning retained earnings + \$1,400 Net income – \$200

Dividends = \$1,200

92) B

Recording the adjusting entry will increase salaries expense, which will reduce net income and it will increase salaries payable, a liability. It will not affect cash flows.

93) D

## Survey of Accounting Edition 7 by Edmonds

Revenue is recognized when it is earned and expenses when they are incurred, regardless of when cash changes hands. The issuance of common stock, the borrowing, the purchase of land and the payment of dividends do not affect net income.

Revenue = \$9,000 earned revenue on account + \$1,000 provided services for cash = \$10,000

Expenses = \$4,000 operating expenses + \$4,000 accrued salaries = \$8,000

Net income = Revenue of \$10,000 – Expenses of \$8,000 = \$2,000

94) A

Net cash flow from operating activities = Cash collections of accounts receivable of \$6,000 + Cash from providing services of \$1,000 – Cash payments on accounts payable of \$3,000 = \$4,000

The issuance of common stock, the borrowing, and the payment of dividends are financing activities. The purchase of land is an investing activity.

95) A

Revenue is recognized when it is earned and expenses when they are incurred, regardless of when cash changes hands. The issuance of common stock, the borrowing, the purchase of land and the payment of dividends do not affect net income.

Revenue = \$9,000 earned revenue on account + \$1,000 provided services for cash = \$10,000

Expenses = \$4,000 operating expenses + \$4,000 accrued salaries = \$8,000

Net income = Revenue of \$10,000 – Expenses of \$8,000 = \$2,000

Ending Retained Earnings = \$200 Beginning Retained Earnings – \$200 Dividends + \$2,000 Net Income = \$2,000

96) C

The adjusting entry to recognize revenue earned on the contract will decrease liabilities (unearned revenue) and increase revenues.

97) B

Revenue is recognized when it is earned, regardless of when cash changes hands. Gomez will recognize revenue earned for the 4 months between September 1 and December 31 of \$7,900 (or \$23,700 × 4/12). However, the company will recognize the cash collection of \$23,700 received as a cash inflow for operating activities in Year 1.

98) C

Revenue is recognized when it is earned, regardless of when cash changes hands. Gomez will recognize revenue earned for the 4 months between September 1 and December 31 of \$3,000 (or \$9,000 × 4/12). However, the company will recognize the cash collection of \$9,000 received as a cash inflow for operating activities in Year 1.

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99) A

The matching concept refers to the matching of expenses to the revenues that those expenses produce.

100) B

The matching concept is the process of matching expenses with the revenues that they produce. Revenues and expenses are reported on the income statement.

101) C

Expenses that are matched with the period in which they are incurred are frequently called period costs.

102) A

If retained earnings decreased and no dividends were paid, the company must have reported a net loss. A net loss would have been the result if expenses for the year exceeded revenues.

103) C

In the accounting cycle, a company records transactions throughout the accounting period, then adjusted accounts at the end of the period. Next, the company prepares financial statements, and finally, it closes temporary accounts in order to begin the next accounting period. If accounts were closed prior to preparing statements, the income statement accounts would have zero balances on the income statement.

104) D

A primary goal of accrual accounting is to appropriately match expenses with revenues in accordance with the matching concept.

105) A

Revenues, expenses, and dividends are closed to retained earnings at the end of an accounting cycle.

106) B

Revenues, expenses, and dividends are closed to retained earnings at the end of an accounting cycle. Retained earnings is a permanent account that is reported on the balance sheet.

107) A

The closing process at the end of an accounting period closes all temporary accounts, including revenue, to zero to start off the next accounting period.

108) D

## Survey of Accounting Edition 7 by Edmonds

The cash receipt related to unearned revenue is an asset source transaction. The asset account Cash increases and the liability account Unearned Revenue increases. Collecting the cash has no effect on the income statement. The revenue will be reported on the income statement after the company performs the services. A cash collection from a customers is classified as a cash inflow from operating activities.

109) A

The \$12,000 requires Allen to provide cleaning services from June 1, Year 1 to May 31, Year 2. By December 31, Year 1, Allen has earned 7 months (June 1 through December 31) of revenue related to this contract. Allen will recognize the amount of revenue earned by recording an adjustment to the accounting records at the end of the accounting period. The adjustment for revenue earned in Year 1 is computed as follows:

$\$12,000 \text{ Cost of annual lease} / 12 \text{ months} = \$1,000 \text{ Cleaning revenue earned per month}$

$\$1,000 \times 7 \text{ months} = \$7,000 \text{ Cleaning revenue to be recognized in Year 1}$

This adjustment is a claims exchange event; assets are not affected. On the balance sheet, liabilities (Unearned Revenue) decreases and stockholders' equity (Retained Earnings) increases. On the income statement, revenue and net income increase. Cash flow is not affected by the adjustment.

110) A

Revenue earned per month =  $\$1,608 \text{ total} \div 12 \text{ months} = \$134 \text{ per month}$

As of December 31, Year 1:

Amount earned =  $\$134 \text{ per month} \times 3 \text{ months} = \$402 \text{ service revenue}$

Future obligation =  $\$134 \text{ per month} \times 9 \text{ months} = \$1,206 \text{ unearned revenue}$

111) D

Revenue earned per month =  $\$1,656 \text{ total} \div 12 \text{ months} = \$138 \text{ per month}$

As of December 31, Year 1:

Amount earned =  $\$138 \text{ per month} \times 5 \text{ months} = \$690 \text{ service revenue}$

Future obligation =  $\$138 \text{ per month} \times 7 \text{ months} = \$966 \text{ unearned revenue}$

As of December 31, Year 2:

Amount earned =  $\$138 \text{ per month} \times 7 \text{ months} = \$966 \text{ service revenue}$

All of the revenue has been earned by the end of Year 2 so the amount of unearned revenue is zero on December 31, Year 2.

112) D

## Survey of Accounting Edition 7 by Edmonds

Revenue earned per month =  $\$3,360 \text{ total} \div 12 \text{ months} = \$280 \text{ per month}$

As of December 31, Year 1:

Amount earned =  $\$280 \text{ per month} \times 8 \text{ months} = \$2,240 \text{ service revenue}$

All of the cash was collected in Year 1. The cash inflow from operating activities on the December 31, Year 1 statement of cash flows would be \$3,360.

113) B

Revenue earned per month =  $\$2,760 \text{ total} \div 12 \text{ months} = \$230 \text{ per month}$

As of December 31, Year 1:

Amount earned =  $\$230 \text{ per month} \times 7 \text{ months} = \$1,610 \text{ service revenue}$

Future obligation =  $\$230 \text{ per month} \times 5 \text{ months} = \$1,150 \text{ unearned revenue}$

114) D

Cost per month =  $\$1,560 \text{ total} \div 12 \text{ months} = \$130 \text{ per month}$

As of December 31, Year 2:

Amount used =  $\$130 \text{ per month} \times 10 \text{ months} = \$1,300 \text{ insurance expense}$

Future benefit =  $\$130 \text{ per month} \times 2 \text{ months} = \$260 \text{ prepaid insurance}$

The \$1,300 expense is shown on the Year 2 income statement and the \$260 remaining balance in the prepaid insurance account is shown on the Year 2 balance sheet.

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115) A

Since all of the cash was paid in Year 2, there would be zero cash flow associated with the Year 3 statement of cash flows.

Cost per month =  $\$1,512 \text{ total} \div 12 \text{ months} = \$126 \text{ per month}$

As of December 31, Year 2:

Amount used =  $\$126 \text{ per month} \times 10 \text{ months} = \$1,260 \text{ insurance expense for Year 2}$

As of December 31, Year 3:

Amount used =  $\$126 \text{ per month} \times 2 \text{ months} = \$252 \text{ insurance expense for Year 3}$

116) D

Cost per month =  $\$3,600 \text{ total} \div 12 \text{ months} = \$300 \text{ per month}$

As of December 31, Year 2:

Amount used =  $\$300 \text{ per month} \times 9 \text{ months} = \$2,700 \text{ rent expense for Year 2 income statement.}$

Amount unused =  $\$300 \text{ per month} \times 3 \text{ months} = \$900 \text{ prepaid rent for Year 2 balance sheet.}$

Net cash flow from operating activities:  $\$3,200 \text{ cash inflow from customers (revenue)} - \$3,600 \text{ cash outflow for rent} = \$400 \text{ net cash outflow.}$

Ending retained earnings balance:  $\$1,750 \text{ beginning balance in retained earnings} + \$3,200 \text{ revenue} - \$2,700 \text{ rent expense} - \$600 \text{ cash dividend} = \$1,650 \text{ ending retained earnings balance on the Year 2 balance sheet.}$

## Survey of Accounting Edition 7 by Edmonds

117) C

A claims exchange transaction will result in either an increase in liabilities and a decrease in stockholders' equity or a decrease in liabilities and an increase in stockholders' equity. It may or may not affect the income statement, but it will never affect the statement of cash flows, as it does not affect any asset, including cash.

118) A

Issuing common stock is an asset source transaction that increases assets (cash) and increases stockholders' equity (common stock). Paying a cash dividend is an asset use transaction, receiving a payment on accounts receivable is an asset exchange transaction, and accruing salary expense is a claims exchange transaction.

119) B

Recording insurance expense at the end of the period is an asset use transaction that decreases assets (prepaid insurance) and decreases stockholders' equity (insurance expense decreases retained earnings). Purchasing a machine for cash and investing cash in an interest earning account are asset exchange transactions. Accruing salary expense is a claims exchange transaction.

120) A

Recognizing revenue earned on a contract where the cash had been collected at an earlier date is a claims exchange transaction that decreases liabilities (unearned revenue) and increases stockholders' equity (revenue increases retained earnings). Purchasing a machine for cash and investing in an interest earning account are asset exchange transactions. Issuing common stock is an asset source transaction.

121) C

Collecting cash on accounts receivable is an asset exchange transaction that increases one asset (cash) and decreases another asset (accounts receivable). Issuing common stock is an asset source transaction. Accruing salary expense and recognizing revenue earned on a contract where the cash had been collected at an earlier date are both claims exchange transactions.

122) C

This transaction increases assets (accounts receivable) and increases stockholders' equity (revenue increases retained earnings), and is therefore classified as an asset source transaction.

123) Short Answer

# Survey of Accounting Edition 7 by Edmonds

| Balance Sheet                               |    |   | Income Statement               |    | Statement     |    |
|---------------------------------------------|----|---|--------------------------------|----|---------------|----|
| Assets = Liabilities + Stockholders' Equity |    |   | Revenue - Expense = Net Income |    | of Cash Flows |    |
| I                                           | NA | I | I                              | NA | I             | NA |

Performing services on account increases assets (accounts receivable) and increases revenue, which increases net income and equity (retained earnings). It does not affect the statement of cash flows, as it does not affect cash.

124) Short Answer

| Balance Sheet                               |    |    | Income Statement               |    | Statement     |   |
|---------------------------------------------|----|----|--------------------------------|----|---------------|---|
| Assets = Liabilities + Stockholders' Equity |    |    | Revenue - Expense = Net Income |    | of Cash Flows |   |
| I/D                                         | NA | NA | NA                             | NA | NA            | I |

Collecting on accounts receivable increases one asset (cash) and decreases another asset (accounts receivable). It does not affect the income statement, but is reported as a cash inflow for operating activities on the statement of cash flows.

125) Short Answer

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| Balance Sheet                               |    |   | Income Statement               |    | Statement     |   |
|---------------------------------------------|----|---|--------------------------------|----|---------------|---|
| Assets = Liabilities + Stockholders' Equity |    |   | Revenue - Expense = Net Income |    | of Cash Flows |   |
| I                                           | NA | I | I                              | NA | I             | I |

This event increases revenue, net income and equity (retained earnings) by \$2,600. Cash increases by \$1,000 and accounts receivable increases by \$1,600, which result in an increase in assets of \$2,600. It is reported as a \$1,000 cash inflow for operating activities on the statement of cash flows.

126) Short Answer

# Survey of Accounting Edition 7 by Edmonds

| Balance Sheet                               |    |    | Income Statement               |    | Statement     |    |
|---------------------------------------------|----|----|--------------------------------|----|---------------|----|
| Assets = Liabilities + Stockholders' Equity |    |    | Revenue - Expense = Net Income |    | of Cash Flows |    |
| NA                                          | NA | NA | NA                             | NA | NA            | NA |

This event does not affect the financial statements at all. Revenue is recorded when services are performed, not when the contract is signed.

127) Short Answer

| Balance Sheet                               |   |   | Income Statement               |   | Statement     |    |
|---------------------------------------------|---|---|--------------------------------|---|---------------|----|
| Assets = Liabilities + Stockholders' Equity |   |   | Revenue - Expense = Net Income |   | of Cash Flows |    |
| NA                                          | I | - | NA                             | I | D             | NA |

Accruing salaries expense increases liabilities (salaries payable) and it increases expenses, which decreases net income and stockholders' equity (retained earnings). It does not affect the statement of cash flows.

128) Short Answer

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| Balance Sheet                               |   |    | Income Statement               |    | Statement     |   |
|---------------------------------------------|---|----|--------------------------------|----|---------------|---|
| Assets = Liabilities + Stockholders' Equity |   |    | Revenue - Expense = Net Income |    | of Cash Flows |   |
| I                                           | I | NA | NA                             | NA | NA            | I |

Collecting a payment in advance from a customer increases assets (cash) and increases liabilities (unearned revenue). It does not affect the income statement. Revenue will not be recognized until the services are provided. It will be reported as a cash inflow from operating activities on the statement of cash flows.

129) Short Answer

Revenue is recognized when it is earned; i.e. when the services are performed.

Accrual accounting requires that companies recognize revenue when work is done regardless of when cash is collected.

130) Short Answer

## Survey of Accounting Edition 7 by Edmonds

The balance in accounts receivable represents the amount of future cash receipts that are due from customers. In other words, it is the amount to be collected from customers who previously received goods or services on account.

Accounts receivable is an asset account because it represents something that is owed to the company.

### 131) Short Answer

Expenses are recognized when they are incurred, regardless of when cash is paid. In accrual transactions, that means that expenses are recorded before cash payments, and in deferral transactions they are recorded after cash payments.

Expenses are recognized when incurred, regardless of when payment is made.

### 132) Short Answer

Assets decrease; liabilities decrease

Making a cash payment to creditors decreases assets (cash) and decreases liabilities (accounts payable).

### 133) Short Answer

Adjusting entries are necessary to update ledger account balances before preparing financial statements in order to recognize revenues and expenses that should be recognized in the current year, but have not yet been recorded. Some common adjusting entries include recognizing accrued expenses (such as salaries expense), deferred expenses (such as supplies and prepaid rent), and unearned revenue.

Recognizing revenue when it is earned and expenses when they are incurred, regardless of when cash changes hands, is commonly called accrual accounting.

### 134) Short Answer

The recording of revenue normally has the effect of increasing total assets (usually cash or accounts receivable).

If revenue is earned at the same time cash is collected, cash is increased. If revenue is earned on account, and a customer is billed, accounts receivable is increased. A less common situation involves earning revenue after cash was received in advance, in which case assets are unaffected (liabilities decrease and equity increases).

### 135) Short Answer

There is no effect on the statement of cash flows when services are performed on account. Assets (accounts receivable) and equity (retained earnings) will increase on the balance sheet.

Providing services on account does not affect the cash account; therefore, the statement of cash flows is unaffected. Revenue will be recognized on the income statement which increases net income.

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### 136) Short Answer

The purpose of the closing process is to bring the balance of the temporary accounts to zero at the end of an accounting period and to update the retained earnings account. By closing temporary accounts, they will be ready to capture revenue, expense, and dividend information for the next period.

Closing entries are made after the income statement is prepared. Note that retained earnings is only affected by revenues, expenses, and dividends as the result of the closing process.

### 137) Short Answer

Temporary accounts (revenues, expenses and dividends) collect information about a single period only; they are closed at the end of that period. Permanent accounts include the balance sheet accounts (assets, liabilities, common stock and retained earnings), and their balances roll forward each year rather than being closed out.

Revenue and expense accounts appear on the income statement. Dividends is also a temporary account, but is not reported on the income statement. It is reported only on the statement of changes in equity. All permanent accounts appear on the balance sheet.

### 138) Short Answer

The accounting cycle is a series of steps or procedures that occur repeatedly throughout the life of a business. The stages described to this point in the course include (1) recording transactions, (2) adjusting the accounts, (3) preparing financial statements, and (4) closing the temporary accounts.

The accounting cycle repeats every accounting period. This is usually annually.

### 139) Short Answer

The "matching concept" refers to the process of "matching" the expenses with the revenues that they produce in the appropriate time period. This matching is largely done through the adjusting process. For example, the accrual of salary expense has the effect of matching the correct portion of salary expense to the accounting period in which the employees contributed to producing revenue. Matching means that expenses should be recognized in the same accounting period as the revenues that they helped a business to earn.

The matching concept is the foundation of accrual accounting the recognition of revenues as they are earned and expenses as they are incurred, regardless of when cash is exchanged.

### 140) Short Answer

#### Retained Earnings

Closing revenues increases retained earnings. Closing expenses and dividends decreases retained earnings. Note that closing entries are the only transactions that directly involve the retained earnings account.

### 141) Essay

## Survey of Accounting Edition 7 by Edmonds

- b. This is false. Recognizing accounting events (reporting them on the financial statements) and realizing cash consequences may, but not must, occur in different accounting periods.
- c. This is true. Sometimes the cash consequence of a transaction occurs after its accounting recognition. An example is prepaid rent.
- d. This is true. The matching concept allows companies that use accrual accounting to match expenses with either revenues or accounting periods.
- e. This is false. A company that uses accrual accounting records both accrual and deferral transactions.
- f. This is false. Accrual basis companies may make cash sales and may pay cash expenses.

142) Essay

- g. This is true. Assets (accounts receivable) and stockholders' equity (revenue) both increase.
- h. This is true. Because cash is not affected, cash flows are not affected.
- i. This is false. The event resulted in an increase in revenue and an increase in accounts receivable.
- j. This is false. Kenyon would recognize revenue when the services are performed, not when cash is received.
- k. This is false. Because assets (accounts receivable) increase, it is an asset source transaction.

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143) Essay

- l. This is true. This event reduces assets (Cash) and liabilities (Accounts Payable).
- m. This is false. This event does not affect the income statement because the expense associated with the accounts payable was previously recognized.
- n. This is false. This event reduces assets (Cash) and liabilities (Accounts Payable).

144) Essay

- o. This is false. Because work will not begin until Year 2, the revenue is recognized in Year 2.
- p. This is true. Only the Year 1 statement of cash flows is affected because no cash is received in Year 2.
- q. This is false. Collecting a cash advance is an asset source transaction that increases assets (cash) and increases liabilities (unearned revenue).
- r. This is true. Revenue will be recognized only when services are performed during January of Year 2.
- s. This is true. The transaction increases unearned revenue, a liability.

145) Essay

## Survey of Accounting Edition 7 by Edmonds

- t. This is false. An increase in a revenue account is usually associated with an increase in assets, such as cash or accounts receivable.
- u. This is true. Recording an increase in revenue may be associated with a decrease in liabilities, as in the case of earning revenue from a prepaid contract (unearned revenue).
- v. This is false. An increase in salaries expense could be accompanied by an increase in salaries payable, as in the case of accruing salaries expense, but not a decrease.
- w. This is true. Recording a decrease in assets (such as prepaid rent or insurance, or supplies) may be associated with an increase in expenses.
- x. This is true. Supplies expense is increased when supplies are used, or decreased.

### 146) Essay

- y. This is true. The expense is recognized in the period in which the salaries were earned, in Year 1.
- z. This is true. The January, Year 2 payment decreases cash flows from operating activities in Year 2.
- aa. This is false. When the payment is made, salaries payable, a liability, is decreased, not increased.
- bb. This is true. Because the expense was recognized in Year 1, the Year 2 statement of changes in stockholders' equity is unaffected.
- cc. This is false. The January, Year 2 payment decreases assets (cash) and liabilities (salaries payable), but not stockholders' equity.

### 147) Essay

- dd. This is true. The closing process transfers the balances in revenue, expense, and dividend accounts to retained earnings at the end of the period.
- ee. This is false. Dividends are closed, but do not appear on the income statement.
- ff. This is true. All balance sheet, or permanent, accounts contain cumulative information.
- gg. This is false. Because the retained earnings account accumulates earnings from year to year, its balance is not equal to net income in any particular year.

### 148) Essay

## Survey of Accounting Edition 7 by Edmonds

- hh. This is false. Recording usage of supplies decreases assets (supplies) and increases expense, which decreases stockholders' equity.
- ii. This is true. Accruing salaries increases a liability (salaries payable) and decreases stockholders' equity (salaries expense decreases retained earnings).
- jj. This is false. Recording service performed on a prepaid contract involves a decrease in liabilities (unearned revenue) and an increase in revenue, which increases stockholders' equity. Assets are not affected.
- kk. This is false. End of period adjustments never affect the cash account and, as a result, never affect cash flows.
- ll. This is true. Failure to record accrued salaries would understate salaries expense, causing reported income to be higher than it should have been.

### 149) Essay

- mm. This is true. An asset exchange transaction involves an increase in one asset and a decrease in another.
- nn. This is true. An asset source transaction involves an increase in assets and an increase in liabilities or stockholders' equity.
- oo. This is true. An asset use transaction involves a decrease in assets and either a decrease in liabilities or stockholders' equity. Therefore, it cannot result in an increase in stockholders' equity.
- pp. This is false. Because an asset exchange transaction involves an increase in one asset and a decrease in another, it often affects cash.
- qq. This is true. Some claims exchange transactions, including accruing salaries, involve an increase in a liability and a decrease in stockholders' equity.

### 150) Essay

# Survey of Accounting Edition 7 by Edmonds

a.

|            | Assets        |               |            |               | = | Liabi        | + | Stockhol      | Reve          | -              | Exp            | = | Net           | Cash          |
|------------|---------------|---------------|------------|---------------|---|--------------|---|---------------|---------------|----------------|----------------|---|---------------|---------------|
|            |               |               |            |               |   | litie        |   | ders'         | nue           |                | ens            |   | Inco          | Flows         |
|            |               |               |            |               |   | s            |   | Equity        |               |                | e              |   | me            |               |
|            | Cash          | Accou         | Supp       | Prepa         |   | Accou        |   | Co + Reta     |               |                |                |   |               |               |
|            |               | nts           | lies       | id            |   | nts          |   | mm in         |               |                |                |   |               |               |
|            | Recei         |               |            | Rent          |   | Payab        |   | on Earn       |               |                |                |   |               |               |
|            | vable         |               |            |               |   | le           |   | St ings       |               |                |                |   |               |               |
|            |               |               |            |               |   |              |   | oc            |               |                |                |   |               |               |
|            |               |               |            |               |   |              |   | k             |               |                |                |   |               |               |
| 1.         | 50,000        |               |            |               |   |              |   | 50,000        |               |                |                |   |               | 50,000 F      |
| 2.         |               | 125,500       |            |               |   |              |   | 125,000       | 125,000       |                |                |   | 125,000       |               |
| 3.         |               |               | 2,500      |               |   | 2,500        |   |               |               |                |                |   |               |               |
| 4.         | (30,000)      |               |            | 30,000        |   |              |   |               |               |                |                |   |               | (30,000) A    |
| 5.         | 115,000       | (115,000)     |            |               |   |              |   |               |               |                |                |   |               | 115,000 A     |
| 6.         | (9,000)       |               |            |               |   |              |   | (90,000)      | 90,000        |                |                |   | (90,000)      | (90,000) A    |
| 7.         |               |               | (1,750)    |               |   |              |   | (1,750)       | 1,750         |                |                |   | (1,750)       |               |
| 8.         |               |               |            | (15,000)      |   |              |   | (15,000)      | 15,000        |                |                |   | (15,000)      |               |
| <b>Tot</b> | <b>45,000</b> | <b>10,000</b> | <b>750</b> | <b>15,000</b> |   | <b>2,500</b> |   | <b>50,000</b> | <b>18,250</b> | <b>125,000</b> | <b>106,750</b> |   | <b>18,250</b> | <b>45,000</b> |
| <b>als</b> |               |               |            |               |   |              |   |               |               |                |                |   |               |               |

b.

Hernandez Company

Income Statement

For the Year Ended December 31, Year 1

|                           |            |
|---------------------------|------------|
| <b>Service revenue</b>    | \$ 125,000 |
| <b>Operating expenses</b> | (90,000)   |
| <b>Rent expense</b>       | (15,000)   |

# Survey of Accounting Edition 7 by Edmonds

|                  |                  |
|------------------|------------------|
| Salaries expense | (1,750)          |
| Net income       | <u>\$ 18,250</u> |

Hernandez Company

Balance Sheet

As of December 31, Year 1

**Assets**

|                     |           |           |
|---------------------|-----------|-----------|
| Cash                | \$ 45,000 |           |
| Accounts receivable | 10,000    |           |
| Supplies            | 750       |           |
| Prepaid rent        | 15,000    | \$ 70,750 |

**Liabilities**

|                  |  |          |
|------------------|--|----------|
| Accounts payable |  | \$ 2,500 |
|------------------|--|----------|

**Stockholders' equity**

|                   |           |        |
|-------------------|-----------|--------|
| Common stock      | \$ 50,000 |        |
| Retained earnings | 18,250    | 68,250 |

|                                                   |  |                  |
|---------------------------------------------------|--|------------------|
| <b>Total liabilities and stockholders' equity</b> |  | <u>\$ 70,750</u> |
|---------------------------------------------------|--|------------------|

Hernandez Company

Statement of Cash Flows

For the Year Ended December 31, Year 1

**Cash flows from operating activities**

|                                                |            |            |
|------------------------------------------------|------------|------------|
| Cash receipts from revenue                     | \$ 115,000 |            |
| Cash payments for rent                         | (30,000)   |            |
| Cash payments for operating expenses           | (90,000)   |            |
| <b>Net cash flow from operating activities</b> |            | \$ (5,000) |

|                                            |  |   |
|--------------------------------------------|--|---|
| <b>Cash flows for investing activities</b> |  | 0 |
|--------------------------------------------|--|---|

**Cash flows from financing activities**

|                                         |  |        |
|-----------------------------------------|--|--------|
| Cash receipts from issuing common stock |  | 50,000 |
|-----------------------------------------|--|--------|

# Survey of Accounting Edition 7 by Edmonds

|                              |                  |
|------------------------------|------------------|
| Net increase in cash         | 45,000           |
| Plus: Beginning cash balance | 0                |
| Ending cash balance          | <u>\$ 45,000</u> |

151) Essay

a.

b.

| Event | Cash Flow   | Transaction     |
|-------|-------------|-----------------|
| a)    | 50,000 FA   | Asset source    |
| b)    | NA          | Asset source    |
| c)    | (16,000) IA | Asset exchange  |
| d)    | NA          | Asset source    |
| e)    | (12,000) OA | Asset use       |
| f)    | (550) OA    | Asset use       |
| g)    | 25,000 OA   | Asset source    |
| h)    | NA          | Claims exchange |
| i)    | (2,000) FA  | Asset use       |

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152) Essay

# Survey of Accounting Edition 7 by Edmonds

|     | Assets   |          |              | = | Liabilities      | + Stockholders' Equity | Revenue           | - Expense | = Net Income | Statement of Cash Flows |
|-----|----------|----------|--------------|---|------------------|------------------------|-------------------|-----------|--------------|-------------------------|
|     | Cash     | Supplies | Prepaid Rent |   | Unearned Revenue | Common Stock           | Retained Earnings |           |              |                         |
| a.  | (37,000) |          | 37,000       |   |                  |                        |                   |           |              | (37,000)<br>OA          |
| Adj |          |          | (27,750)     |   |                  | (27,750)               |                   | 27,750    | (27,750)     |                         |
| ust |          |          |              |   |                  |                        |                   |           |              |                         |
| b.  | (3,100)  | 3,100    |              |   |                  |                        |                   |           |              | (3,100)<br>OA           |
| Adj |          | (1,600)  |              |   |                  | (1,600)                |                   | 1,600     | (1,600)      |                         |
| ust |          |          |              |   |                  |                        |                   |           |              |                         |
| c.  | 51,000   |          |              |   | 51,000           |                        |                   |           |              | 51,000<br>OA            |
| Adj |          |          |              |   | (34,000)         | 34,000                 | 34,000            |           | 34,000       |                         |
| ust |          |          |              |   |                  |                        |                   |           |              |                         |

rr. Nine months (April through December) of the prepaid rent has been used; Rent expense =  $\$37,000 \times 9/12 = \$27,750$

ss. Supplies expense = Purchase of supplies of \$3,100 – Supplies on hand of \$1,500 = \$1,600

tt. Four months (September through December) of the cash advance has been earned; Revenue earned =  $\$51,000 \times 4/6 = \$34,000$

153) Essay

# Survey of Accounting Edition 7 by Edmonds

|            | Assets   |          |              | = | Liabilities      | + | Stockholders' Equity | Revenue           | -      | Expense | =        | Net Income | Statement of Cash Flows |
|------------|----------|----------|--------------|---|------------------|---|----------------------|-------------------|--------|---------|----------|------------|-------------------------|
|            | Cash     | Supplies | Prepaid Rent |   | Unearned Revenue |   | Common Stock         | Retained Earnings |        |         |          |            |                         |
| <b>a</b>   | (36,000) |          | 36,000       |   |                  |   |                      |                   |        |         |          |            | (36,000) OA             |
| <b>Adj</b> |          |          | (27,000)     |   |                  |   | (27,000)             |                   | 27,000 |         | (27,000) |            |                         |
| <b>b</b>   | (3,000)  | 3,000    |              |   |                  |   |                      |                   |        |         |          |            | (3,000) OA              |
| <b>Adj</b> |          |          | (1,920)      |   |                  |   | (1,920)              |                   | 1,920  |         | (1,920)  |            |                         |
| <b>c</b>   | 48,000   |          |              |   | 48,000           |   |                      |                   |        |         |          |            | 48,000 OA               |
| <b>Adj</b> |          |          |              |   | (32,000)         |   | 32,000               | 32,000            |        |         | 32,000   |            |                         |

uu. Nine months (April through December) of the prepaid rent has been used; Rent expense =  $\$36,000 \times 9/12 = \$27,000$

vv. Supplies expense = Purchase of supplies of \$3,000 – Supplies on hand of \$1,080 = \$1,920

ww. Four months (September through December) of the cash advance has been earned; Revenue earned =  $\$48,000 \times 4/6 = \$32,000$

154) Essay

# Survey of Accounting Edition 7 by Edmonds

a. The accounts that should be closed are:

- ☐ Service revenue
- ☐ Salaries expense
- ☐ Operating expense
- ☐ Supplies expense
- ☐ Insurance expense
- ☐ Rent expense
- ☐ Dividends

b.

|                                        |           |                  |
|----------------------------------------|-----------|------------------|
| Li Company                             |           |                  |
| Income Statement                       |           |                  |
| For the Year Ended December 31, Year 1 |           |                  |
| <b>Service revenue</b>                 |           | \$ 166,000       |
| <b>Salaries expense</b>                | \$ 88,000 |                  |
| <b>Operating expense</b>               | 15,400    |                  |
| <b>Insurance expense</b>               | 1,600     |                  |
| <b>Rent expense</b>                    | 20,000    |                  |
| <b>Supplies expense</b>                | 760       | 125,760          |
| <b>Net Income</b>                      |           | <u>\$ 40,240</u> |

c.

|                                    |                   |
|------------------------------------|-------------------|
| <b>Beginning retained earnings</b> | \$ 95,000         |
| <b>Add: Net income</b>             | 40,240            |
| <b>Less: Dividends</b>             | (2,400)           |
| <b>Ending retained earnings</b>    | <u>\$ 132,840</u> |

155) Essay

# Survey of Accounting Edition 7 by Edmonds

1. AU, 2. CE 3. AS, 4. AS, 5. AU, 6. AE, 7. AS, 8. AS

1. Assets (cash) decreased, Stockholders' Equity (retained earnings from paying dividends) decreased
2. Liabilities (salaries payable) increased, Equity (retained earnings from salaries expense) decreased
3. Assets (cash) increased, Stockholders' Equity (common stock) increased
4. Assets (accounts receivable), Stockholders' Equity (retained earnings from revenue) increased
5. Assets (cash) decreased, Liabilities (salaries payable) decreased
6. Assets (cash) increased, Assets (accounts receivable) decreased
7. Assets (supplies) increased, Liabilities (accounts payable) increased
8. Assets (cash) increased, Liabilities (unearned revenue) increased

156) Essay

1. IA, 2. NA, 3. FA, 4. OA, 5. OA, 6. NA, 7. OA

9. Purchasing and selling long-lived assets is an investing activity
10. Adjusting entries never affect cash flows
11. Borrowing cash is a financing activity
12. Paying rent, including paying in advance, is an operating activity
13. Paying salaries is an operating activity
14. Making purchase on account does not affect cash flows
15. Collecting cash from customers is an operating activity

157) Essay

# Survey of Accounting Edition 7 by Edmonds

|              | <b>Assets</b> | <b>=</b> | <b>Liabilities + Stockholders' Equity</b> |
|--------------|---------------|----------|-------------------------------------------|
| 1)           | 10,200        |          | 10,200                                    |
| 2)           | 35,000        |          | 35,000                                    |
| 3)           | (15,000)      |          | (15,000)                                  |
| 4)           | 12,000        |          |                                           |
|              | (12,000)      |          |                                           |
| 5)           | (5,000)       |          | (5,000)                                   |
| <b>Total</b> | <b>25,200</b> |          | <b>25,200</b>                             |

Stern Consulting

Income Statement

For the Year Ended December 31,  
Year 1

|                          |                  |
|--------------------------|------------------|
| <b>Service revenue</b>   | \$ 35,000        |
| <b>Operating expense</b> | (15,000)         |
| <b>Net income</b>        | <u>\$ 20,000</u> |

Stern Consulting

Statement of Cash Flows

For the Year Ended December 31, Year 1

**Cash flows from operating activities**

**Cash receipts from revenue** \$ 12,000

**Cash payments for operating expenses** (15,000)

**Net cash flow for operating activities**                      \$ (3,000)

**Cash flows for investing activities** 0

**Cash flows from financing activities**

**Cash receipt stock issuance** 10,200

**Cash payment for dividends** (5,000)

## Survey of Accounting Edition 7 by Edmonds

|                                         |                        |
|-----------------------------------------|------------------------|
| Net cash flow from financing activities | 5,200                  |
| Net increase in cash                    | <u>2,200</u>           |
| Plus: Beginning cash balance            | 0                      |
| Ending cash balance                     | <u><u>\$ 2,200</u></u> |

158) Essay

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# Survey of Accounting Edition 7 by Edmonds

a.

|              | <b>Assets</b> | <b>=</b> | <b>Liabilities</b> | <b>+</b> | <b>Stockholders' Equity</b> |
|--------------|---------------|----------|--------------------|----------|-----------------------------|
| 1)           | 9,000         |          |                    |          | 9,000                       |
| 2)           | 27,500        |          |                    |          | 27,500                      |
| 3)           | (13,500)      |          |                    |          | (13,500)                    |
| 4)           | 11,000        |          |                    |          |                             |
|              | (11,000)      |          |                    |          |                             |
| 5)           | (5,000)       |          |                    |          | (5,000)                     |
| <b>Total</b> | 18,000        |          |                    |          | 18,000                      |

b.

|                                        |            |                  |
|----------------------------------------|------------|------------------|
| Stern Consulting                       |            |                  |
| Income Statement                       |            |                  |
| For the Year Ended December 31, Year 1 |            |                  |
| <b>Service revenue</b>                 | TBEXAM.COM | \$ 27,500        |
| <b>Operating expense</b>               |            | (13,500)         |
| <b>Net income</b>                      |            | <u>\$ 14,000</u> |

|                                               |           |            |
|-----------------------------------------------|-----------|------------|
| Stern Consulting                              |           |            |
| Statement of Cash Flows                       |           |            |
| For the Year Ended December 31, Year 1        |           |            |
| <b>Cash flows from operating activities</b>   |           |            |
| <b>Cash receipts from revenue</b>             | \$ 11,000 |            |
| <b>Cash payments for operating expenses</b>   | (13,500)  |            |
| <b>Net cash flow for operating activities</b> | <u></u>   | \$ (2,500) |
| <b>Cash flows from investing activities</b>   |           | 0          |
| <b>Cash flows from financing activities</b>   |           |            |
| <b>Cash receipt stock issuance</b>            | 9,000     |            |
| <b>Cash payment for dividends</b>             | (5,000)   |            |
|                                               | <u></u>   |            |

# Survey of Accounting Edition 7 by Edmonds

|                                         |                        |
|-----------------------------------------|------------------------|
| Net cash flow from financing activities | 4,000                  |
| Net increase in cash                    | <u>1,500</u>           |
| Plus: Beginning cash balance            | 0                      |
| Ending cash balance                     | <u><u>\$ 1,500</u></u> |

159) Essay  
\$38,500\$34,500\$8,000

Turner Company  
Balance Sheet  
As of December 31, Year 1

## Assets:

|                     |                               |
|---------------------|-------------------------------|
| Cash                | \$ 34,500                     |
| Accounts receivable | <u>4,000</u> <u>\$ 38,500</u> |

## Liabilities:

|                  |          |
|------------------|----------|
| Accounts payable | \$ 8,000 |
|------------------|----------|

## Stockholders' equity:

|                   |                            |
|-------------------|----------------------------|
| Common stock      | 15,000                     |
| Retained earnings | <u>7,500</u> <u>22,500</u> |

|                                            |                         |
|--------------------------------------------|-------------------------|
| Total liabilities and stockholders' equity | <u><u>\$ 38,500</u></u> |
|--------------------------------------------|-------------------------|

xx. See part d

yy. See part d

zz. Net income = Revenues of \$51,000 - Expenses of \$43,000 = \$8,000

aaa. Cash = \$15,000 + \$47,000 - \$27,000 - \$500 = \$34,500 Accounts receivable =  
\$51,000 - \$47,000 = \$4,000 Accounts payable = \$43,000 - \$27,000 = \$16,000 Retained  
earnings = Revenues of \$51,000 - Expenses of \$43,000 - Dividends of \$500 = \$7,500

160) Essay

# Survey of Accounting Edition 7 by Edmonds

\$26,500 \$21,000 \$8,500

Turner Company

Balance Sheet

As of December 31, Year 1

## Assets:

Cash \$ 21,000

Accounts receivable 5,500 \$ 26,500

## Liabilities:

Accounts payable \$ 8,500

## Stockholders' equity:

Common stock 10,000

Retained earnings 8,000 18,000

Total liabilities and stockholders' equity \$ 26,500

bbb. See part d

ccc. See part d

ddd. Net income = Revenues of \$38,000 - Expenses of \$29,500 = \$8,500

eee. Cash = \$10,000 + \$32,500 - \$21,000 - \$500 = \$21,000 Accounts receivable = \$38,000 - \$32,500 = \$5,500 Accounts payable = \$29,500 - \$21,000 = \$8,500 Retained earnings = Revenues of \$38,000 - Expenses of \$29,500 - Dividends of \$500 = \$8,000

161) Essay

# Survey of Accounting Edition 7 by Edmonds

\$8,000

## Maryland Corporation Statement of Cash Flows

For the Year Ended December 31, Year 1

### Cash flows from operating activities

Cash receipts from revenue \$ 68,000

Cash payments for operating expenses (50,000)

Net cash flow from operating activities \$ 18,000

Cash flows from investing activities 0

### Cash flows from financing activities

Cash receipt stock issuance 50,000

Cash payment for dividends (2,000)

Net cash flow from financing activities 48,000

Net increase in cash 66,000

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Plus: Beginning cash balance 0

Ending cash balance \$ 66,000

1. Net income = \$75,000 services earned - (\$63,000 expenses paid + \$4,000 accrued expenses) = \$8,000
2. Retained earnings = \$0 beginning + \$8,000 net income - \$2,000 dividends = \$6,000

162) Essay

## Survey of Accounting Edition 7 by Edmonds

fff. \$71,000

ggg. \$66,000

hhh. \$3,630

iii. \$4,150

jjj. Ending Accounts Receivable of \$44,000 = Beginning Accounts Receivable of \$38,000 + Revenue earned on account – Cash collections on Accounts Receivable of \$65,000;  
Revenue on account = \$44,000 – \$38,000 + \$65,000 = \$71,000.

kkk. Ending Accounts Payable of \$26,000 = Beginning Accounts Payable of \$19,000 + Expenses on account of \$73,000 – Payments on account; Payments on account = \$19,000 + \$73,000 – \$26,000 = \$66,000.

lll. Insurance expense = \$630 + (\$3,600 × 10/12) = \$3,630.

mmm. Ending supplies of \$580 = Beginning supplies of \$530 + Supplies purchased – Supplies expense of \$4,100; Supplies purchased = \$580 – \$530 + \$4,100 = \$4,150.

### 163) Essay

nnn. \$61,000

ooo. \$72,000

ppp. \$2,980

qqq. \$3,150

rrr. Ending Accounts Receivable of \$30,000 = Beginning Accounts Receivable of \$24,000 + Revenue earned on account – Cash collections on Accounts Receivable of \$55,000;  
Revenue on account = \$30,000 – \$24,000 + \$55,000 = \$61,000

sss. Ending Accounts Payable of \$15,000 = Beginning Accounts Payable of \$19,000 + Expenses on account of \$68,000 – Payments on account; Payments on account = \$19,000 + \$68,000 – \$15,000 = \$72,000

ttt. Insurance expense = \$480 + (\$3,000 × 10/12) = \$2,980

uuu. Ending supplies of \$400 = Beginning supplies of \$550 + Supplies purchased – Supplies expense of \$3,300; Supplies purchased = \$400 – \$550 + \$3,300 = \$3,150

### 164) Essay

## Survey of Accounting Edition 7 by Edmonds

1. \$59,000
2. \$30,800
3. \$1,080
4. \$18,000
5. \$3,120
6. \$1,120
7. Service revenue = Revenue on account of \$32,000 + Revenue earned on contract of \$27,000 (or  $\$36,000 \times 9/12$ ) = \$59,000
8. Salaries expense = Salaries paid during year of \$28,000 + Salaries accrued at year-end of \$2,800 = \$30,800
9. Supplies expense = \$1,080 (the amount used)
10. Net cash flows from operating activities = Advance to provide services of \$36,000 + Collections on account of \$25,600 (or  $\$32,000 \times 0.80$ ) – Cash paid for operating expenses of \$14,400 (or  $\$24,000 \times 0.60$ ) – Cash paid to purchase supplies of \$1,200 – Cash paid for salaries of \$28,000 = \$18,000
11. Net income = Service revenue of \$59,000 (from part 1) – Operating expenses of \$24,000 – Salaries expense of \$30,800 (from part 1) – Supplies expense of \$1,080 (from part 3) = \$3,120
12. Ending retained earnings = Beginning retained earnings of \$0 + Net income of \$3,120 (from part 5) – Dividends of \$2,000 = \$1,120

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### 165) Essay

13. Statement of cash flows
14. Balance sheet
15. Income statement
16. Balance sheet
17. Statement of cash flows and statement of changes in stockholder's equity
18. Income statement and statement of changes in stockholder's equity
19. Statement of cash flows and statement of changes in stockholder's equity
20. Statement of cash flows
21. Balance sheet & statement of changes in stockholder's equity
22. Statement of cash flows

### 166) Essay

# Survey of Accounting Edition 7 by Edmonds

|    | Cash     | Assets<br>Supplies | Prepaid<br>Rent | = Liabilities + Stockholders' Equity<br>Accounts Payable | Common<br>Stock | + Retained<br>Earnings |
|----|----------|--------------------|-----------------|----------------------------------------------------------|-----------------|------------------------|
| 1. | 44,000   |                    |                 |                                                          | 44,000          |                        |
| 2. | (36,000) |                    | 36,000          |                                                          |                 |                        |
| 3. |          | 9,800              |                 | 9,800                                                    |                 |                        |
| 4. | 74,000   |                    |                 |                                                          |                 | 74,000                 |
| 5. |          |                    | (24,000)        |                                                          |                 | (24,000)               |
| 6. |          | (9,520)            |                 |                                                          |                 | (9,520)                |

23. Eight months (May through December) have passed; Rent expense =  $\$36,000 \times 8/12 = \$24,000$

24. Supplies expense = Beginning balance of supplies of \$0 + Supplies purchased of \$9,800 – Supplies on hand of \$660 = \$9,520

167) Essay

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|    | Cash     | Assets<br>Supplies | Prepaid<br>Rent | = Liabilities + Stockholders' Equity<br>Accounts Payable | Common<br>Stock | + Retained<br>Earnings |
|----|----------|--------------------|-----------------|----------------------------------------------------------|-----------------|------------------------|
| 1. | 44,000   |                    |                 |                                                          | 44,000          |                        |
| 2. | (27,000) |                    | 27,000          |                                                          |                 |                        |
| 3. |          | 4,500              |                 | 4,500                                                    |                 |                        |
| 4. | 68,400   |                    |                 |                                                          |                 | 68,400                 |
| 5. |          |                    | (18,000)        |                                                          |                 | (18,000)               |
| 6. |          | (3,840)            |                 |                                                          |                 | (3,840)                |

25. Eight months (May through December) have passed; Rent expense =  $\$27,000 \times 8/12 = \$18,000$

26. Supplies expense = Beginning balance of supplies of \$0 + Supplies purchased of \$4,500 – Supplies on hand of \$660 = \$3,840

168) Essay

# Survey of Accounting Edition 7 by Edmonds

|    | Assets  |          |                   | = | Liabilities      |                  | + | Stockholders' Equity |                   |
|----|---------|----------|-------------------|---|------------------|------------------|---|----------------------|-------------------|
|    | Cash    | Supplies | Prepaid Insurance |   | Accounts Payable | Unearned Revenue |   | Common Stock         | Retained Earnings |
| a. | 20,000  |          |                   |   |                  | 20,000           |   |                      |                   |
| b. | (2,100) |          | 2,100             |   |                  |                  |   |                      |                   |
| c. |         |          | (350)             |   |                  |                  |   |                      | (350)             |
| d. |         |          |                   |   |                  | (5,100)          |   |                      | 5,100             |

vvv. Two months (November and December) have passed; Insurance expense =  $\$2,100 \times 2/12 = \$350$

169) Essay

|    | Assets  |          |                   | = | Liabilities      |                  | + | Stockholders' Equity |                   |
|----|---------|----------|-------------------|---|------------------|------------------|---|----------------------|-------------------|
|    | Cash    | Supplies | Prepaid Insurance |   | Accounts Payable | Unearned Revenue |   | Common Stock         | Retained Earnings |
| a. | 12,000  |          |                   |   |                  | 12,000           |   |                      |                   |
| b. | (1,200) |          | 1,200             |   |                  |                  |   |                      |                   |
| c. |         |          | (200)             |   |                  |                  |   |                      | (200)             |
| d. |         |          |                   |   |                  | (4,000)          |   |                      | 4,000             |

www. Two months (November and December) have passed; Insurance expense =  $\$1,200 \times 2/12 = \$200$

170) Essay

## Survey of Accounting Edition 7 by Edmonds

1. Balance sheet & statement of changes in stockholders' equity
2. Statement of cash flows and statement of changes in stockholders' equity
3. Balance sheet
4. Statement of cash flows
5. Balance sheet
6. Statement of cash flows and statement of changes in stockholders' equity
7. Income statement and statement of changes in stockholders' equity
8. Statement of cash flows
9. Income statement
10. Statement of cash flows

171) Essay

| Event | a. Effect on Statement of Cash Flows | b. Transaction Type |
|-------|--------------------------------------|---------------------|
| 1.    | 35,000                               | FA                  |
| 2.    | NA                                   |                     |
| 3.    | (28,000)                             | IA                  |
| 4.    | NA                                   |                     |
| 5.    | 44,000                               | OA                  |
| 6.    | (32,000)                             | OA                  |
| 7.    | (3,300)                              | FA                  |

172) Essay

| Event | a. Effect on Statement of Cash Flows | b. Transaction Type |
|-------|--------------------------------------|---------------------|
| 1.    | 20,000                               | FA                  |
| 2.    | NA                                   |                     |
| 3.    | (15,000)                             | IA                  |
| 4.    | NA                                   |                     |
| 5.    | 35,000                               | OA                  |
| 6.    | (27,000)                             | OA                  |
| 7.    | (2,000)                              | FA                  |

173) Essay

# Survey of Accounting Edition 7 by Edmonds

a.

| Event  | Assets   | = | Liabilities | + | Stock<br>Equity |
|--------|----------|---|-------------|---|-----------------|
| 1)     | 40,000   |   |             |   | 40,000          |
| 2)     | 46,500   |   |             |   | 46,500          |
| 3)     |          |   | 37,500      |   | (37,500)        |
|        | (32,000) |   | (32,000)    |   |                 |
| 4)     | 39,000   |   |             |   |                 |
|        | (39,000) |   |             |   |                 |
| 5)     | (4,000)  |   |             |   | (4,000)         |
| Totals | 50,500   |   | 5,500       |   | 45,000          |

b.

## Hylton Consulting Income Statement

For the Year Ended December 31, Year 1

|                          |                 |
|--------------------------|-----------------|
| <b>Service revenue</b>   | \$ 46,500       |
| <b>Operating expense</b> | (37,500)        |
| <b>Net income</b>        | <u>\$ 9,000</u> |

## Hylton Consulting Statement of Cash Flows

For the Year Ended December 31, Year 1

### Cash flows from operating activities

|                                                |           |          |
|------------------------------------------------|-----------|----------|
| <b>Cash receipts from customers</b>            | \$ 39,000 |          |
| <b>Cash payments for operating expenses</b>    | (32,000)  |          |
| <b>Net cash flow from operating activities</b> | <u></u>   | \$ 7,000 |

**Cash flows from investing activities** 0

### Cash flows from financing activities

|                                    |         |
|------------------------------------|---------|
| <b>Cash receipt stock issuance</b> | 40,000  |
| <b>Cash payment for dividends</b>  | (4,000) |
|                                    | <u></u> |

# Survey of Accounting Edition 7 by Edmonds

|                                                |                         |
|------------------------------------------------|-------------------------|
| <b>Net cash flow from financing activities</b> | 36,000                  |
| <b>Net increase in cash</b>                    | <u>43,000</u>           |
| <b>Plus: Beginning cash balance</b>            | 0                       |
| <b>Ending cash balance</b>                     | <u><u>\$ 43,000</u></u> |

174) Essay

xxx. Adjusting entries are required for transactions 2, 3, 4, and 6.

yyy. Adjusting entries are required at the end of an accounting period to properly match expenses with revenues. Transactions that involve deferrals and accruals often require adjusting entries to bring account balances up to date.

175) Essay

\$11,000 \$8,700 \$3,600

## Balance Sheet As of December 31, Year 1

### Assets

#### Cash

TBEXAM.COM \$ 8,700

#### Accounts receivable

2,300 \$ 11,000

### Liabilities

\$ 0

### Stockholders' equity

#### Common stock

\$ 8,000

#### Retained earnings

3,000 11,000

### Total liabilities and stockholders' equity

\$ 11,000

zzz. See part d

aaaa. See part d

bbbb. Net income = Service revenue of \$18,500 – Operating expenses of \$14,900 = \$3,600

cccc. Cash = \$8,000 + \$16,200 – \$14,900 – \$600 = \$8,700 Accounts receivable = \$18,500 – \$16,200 = \$2,300 Retained earnings = Net income of \$3,600 (from part c) – Dividends of \$600 = \$3,000

176) Essay

# Survey of Accounting Edition 7 by Edmonds

## Income Statement

For the Year Ended December 31, Year 1

|                   |                  |
|-------------------|------------------|
| Service revenue   | \$ 68,000        |
| Operating expense | (24,000)         |
| Insurance expense | (4,000)          |
| Net income        | <u>\$ 40,000</u> |

## Statement of Cash Flows

For the Year Ended December 31, Year 1

### Cash flows from operating activities

|                                         |           |           |
|-----------------------------------------|-----------|-----------|
| Cash receipts from revenue              | \$ 64,000 |           |
| Cash payment for insurance              | (4,800)   |           |
| Net cash flow from operating activities | <u></u>   | \$ 59,200 |

### Cash flows from investing activities

|                                         |          |   |
|-----------------------------------------|----------|---|
| Cash receipt from sale of land          | 20,000   |   |
| Cash payment for land                   | (20,000) |   |
| Net cash flow from investing activities | <u></u>  | 0 |

### Cash flows from financing activities

|                                         |         |                 |
|-----------------------------------------|---------|-----------------|
| Cash receipt stock issuance             | 80,000  |                 |
| Net cash flow from financing activities | <u></u> | 80,000          |
| Net increase in cash                    |         | <u>1,39,200</u> |

Plus: Beginning cash balance 0

Ending cash balance \$ 1,39,200

dddd. Service revenue = \$48,000 (event 3) + \$20,000 (event number 10) = \$68,000

177) Essay

# Survey of Accounting Edition 7 by Edmonds

|              | Assets   |                     | = Liabilities +  | Stockholders' Equity |                   | Cash Flows |
|--------------|----------|---------------------|------------------|----------------------|-------------------|------------|
|              | Cash     | Accounts Receivable | Accounts Payable | Common Stock         | Retained Earnings |            |
| 1.           | 20,000   |                     |                  | 20,000               |                   | 20,000 F   |
| 2.           |          | 80,000              |                  |                      | 80,000            | A          |
| 3.           |          |                     | 36,000           |                      | (36,000)          |            |
| 4.           | 46,000   | (46,000)            |                  |                      |                   | 46,000 O   |
| 5.           | (30,000) |                     | (30,000)         |                      |                   | (30,000 O  |
|              |          |                     |                  |                      |                   | ) A        |
| <b>Total</b> | 36,000   | 34,000              | 6,000            | 20,000               | 44,000            | 36,000     |

178) Essay

1. BS, 2. BS, 3. SE and CF, 4. IS, 5. BS, 6. IS, 7. BS and SE, 8. BS, 9. CF, 10. SE, 11. SE and CF, 12. BS

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179) Essay

1. OA, 2. NA, 3. FA, 4. OA, 5. OA, 6. FA, 7. IA

180) Essay

# Survey of Accounting Edition 7 by Edmonds

|              | Assets        |                     |              |              | = Liabilities | + Stockholders' Equity |                   |
|--------------|---------------|---------------------|--------------|--------------|---------------|------------------------|-------------------|
|              | Cash          | Accounts Receivable | Prepaid Rent | Supplies     |               | Common Stock           | Retained Earnings |
| 1.           |               | 68,000              |              |              |               |                        | 68,000            |
| 2.           | 56,000        | (56,000)            |              |              |               |                        |                   |
| 3.           | 16,000        |                     |              |              |               | 16,000                 |                   |
| 4.           | (8,800)       |                     | 8,800        |              |               |                        |                   |
| 5.           | (21,000)      |                     |              | 21,000       |               |                        |                   |
| 6.           |               |                     |              | (14,500)     |               |                        | (14,500)          |
| 7.           |               |                     | (6,600)      |              |               |                        | (6,600)           |
| <b>Total</b> | <b>42,200</b> | <b>12,000</b>       | <b>2,200</b> | <b>6,500</b> | <b>-</b>      | <b>16,000</b>          | <b>46,900</b>     |

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181) Essay

# Survey of Accounting Edition 7 by Edmonds

1. AE, 2. CE, 3. AS, 4. CE, 5. AU, 6. AS, 7. AU, 8. AE, 9. AU, 10. AS

1. Purchasing land for cash is an asset exchange transaction that increases land and decreases cash.
2. Accruing salary expense is a claims exchange transaction that increases accounts payable and decreases retained earnings.
3. Issuing common stock is an asset source transaction that increases cash and common stock.
4. Incurring operating expense on account is a claims exchange transaction that increases accounts payable and decreases retained earnings.
5. Paying creditors on account is an asset use transaction that decreases cash and accounts payable.
6. Providing services on account is an asset source transaction that increases accounts receivable and retained earnings.
7. Paying dividends is an asset use transaction that decreases cash and retained earnings.
8. Collecting on accounts receivable is an asset exchange transaction that increases cash and decreases accounts receivable.
9. Paying salaries that have been accrued is an asset use transaction that decreases cash and accrued salaries.
10. Borrowing cash is an asset source transaction that increases cash and notes payable.

182) Essay

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1. AS, 2. AS, 3. AE, 4. AS, 5. AU, 6. AS, 7. AS, 8. AE, 9. CE, 10. AU

11. Borrowing cash is an asset source transaction that increases cash and notes payable.
12. Issuing common stock is an asset source transaction that increases cash and common stock.
13. Paying rent in advance is an asset exchange transaction that increases prepaid rent and decreases cash.
14. Providing services for cash is an asset source transaction that increases cash and retained earnings.
15. Paying creditors is an asset use transaction that decreases cash and accounts payable.
16. Receiving an advance payment is an asset source transaction that increases cash and unearned revenue.
17. Providing services on account is an asset source transaction that increases accounts receivable and retained earnings.
18. Collecting on accounts receivable is an asset exchange transaction that increases cash and decreases accounts receivable.
19. Accruing salary expense is a claims exchange transaction that increases accounts payable and decreases retained earnings.
20. Recognizing supplies expense is an asset use transaction that decreases supplies and retained earnings.