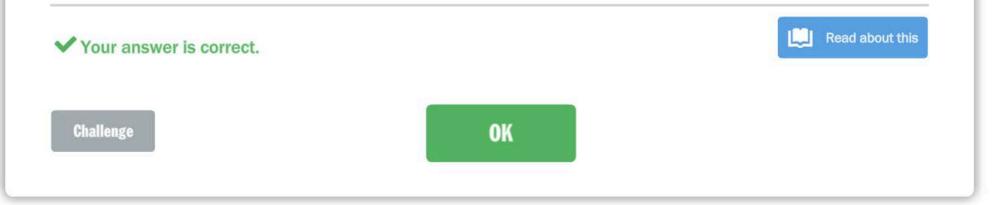
On December 27, a business completed a \$400 service that had not yet been billed or recorded as of December 31. Demonstrate the required adjusting entry of the business by completing the following sentence.

The required adjusting entry would be to debit the Accounts receivable (Unearned revenue/Accounts receivable/Cash/Service revenue) account and credit (debit/credit) the Service revenue (Unearned revenue/Accounts receivable/Cash/Service revenue) account.



Describe the final step in the adjusting process.

✓ Your answer is correct.



The final step is to post to a trial balance so financial statements can be prepared.

The final step is to determine the correct balance of an account.

The final step is to determine the current balance of an account.

The final step is to create an adjusting journal entry.



List the order in which financial statements are prepared.

✓ Your answer is correct.

✓ 1 Income statement

2 Statement of owner's equity

✓ 3 Balance sheet

✓ 4 Statement of cash flows





Explain your understanding of what unearned revenues are by selecting the statements below which are *correct.* (Check all that apply.)



Read about this

They refer to cash received in advance of performing a service.

They refer to earnings which have been earned, but not yet billed.

They are also called accounts receivable.

They are a liability.

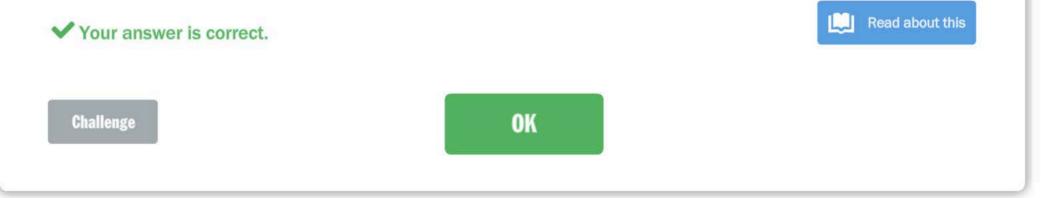
They are reported on a balance sheet.

They are also called deferred revenues.



By the end of the accounting period, employees have earned salaries of \$650, but they will not be paid until the following pay period. Demonstrate the required adjusting entry by completing the following sentence.

The required adjusting entry would be to debit the Salaries expense (expense/payable) account and credit (debit/credit) the Salaries payable (expense/payable/unearned) account.



Choose the statement below that demonstrates the correct adjusting entry to recognize depreciation expense on a building.

✓ Your answer is correct.

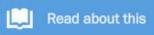
Debit Depreciation expense; credit Building.

Debit Accumulated depreciation; credit Depreciation expense.

Debit Depreciation expense; credit Accumulated depreciation.

Debit Building; credit Accumulated depreciation.





Illustrate your understanding of how to use the adjusted trial balance to prepare an income statement by completing the following sentence.

In order to prepare an income statement using the account balances on an adjusted trial balance, all of the revenues (revenues/liabilities) and their credit balances are transferred to the income statement as well as all of the expenses(expenses/assets) and their debit(debit/credit) balances.



Read about this



A company borrowed \$10,000 from the bank at 5% interest. The loan has been outstanding for 45 days. Demonstrate the required adjusting entry for this company by completing the following sentence.

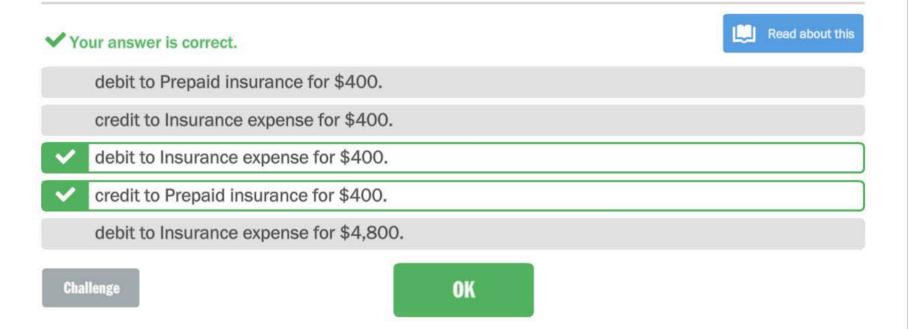
The required adjusting entry would be to debit the Interest (expense/payable/receivable) expense account and (debit/credit)credit the Interest payable (expense/payable/receivable) account.



Read about this



A 12-month insurance policy was purchased on Dec. 1 for \$4,800 and the Prepaid insurance account was initially increased for the payment. The required adjusting journal entry on December 31 includes a: (Check all that apply.)



Choose the statement below which is true regarding adjusting journal entries.

✓ Your answer is correct.

Read about this

An income statement account is never involved.

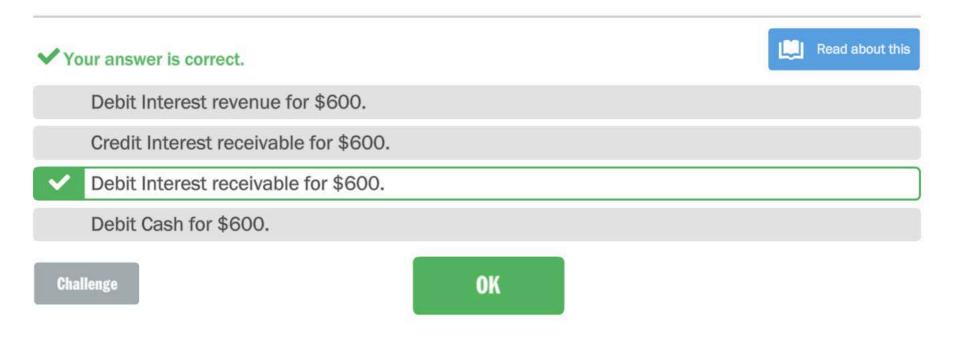
A balance sheet account is never involved.

At least one income statement account and one balance sheet account are always involved.

Cash is sometimes involved when payment is still due from a customer.

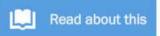


For the current year, Bubbles Office Supply had earned \$600 of interest on investments. As of December 31, none of this interest had been received or recorded. Demonstrate the required half of the adjusting entry by choosing the correct statement below.



A plant asset can be defined by which of the following statements? (Check all that apply.)

✓ Your answer is correct.



Its original cost is expensed in the period in which it was purchased.

- It is reported on the balance sheet.
- Its original cost (minus any salvage value) is expensed over its useful life.
- It is a tangible long-term asset.
- It has a life within the business greater than one year.



An adjusting journal entry is made at the end (beginning/middle/end) of an accounting period.



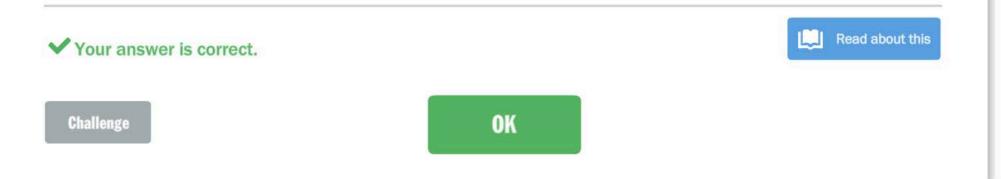






Illustrate your understanding of how to use the adjusted trial balance to prepare a statement of owner's equity by completing the following sentence.

In order to prepare the statement of owner's equity, the balance of the Owner capital(Capital, Cash) account balance as well as any debit balance in the withdrawals (Withdrawals, Supplies) account is transferred from the adjusted trial balance and is used along with the reported net income (loss) from the Income statement.



Identify which group of accounts may require adjustments at the end of the accounting period.





\$800 of supplies were purchased at the beginning of the month and the Supplies account was increased. As of the end of the period, \$200 of supplies still remain. Which of the following is the correct adjusting entry?



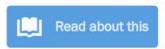
Supplies expense would be debited for \$200.

Supplies would be credited for \$200.

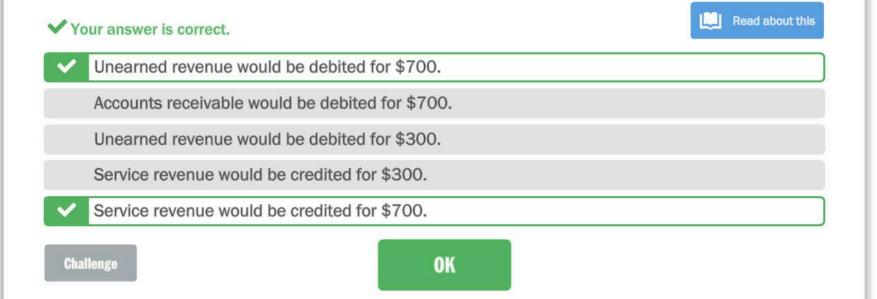
Supplies expense would be debited for \$600.

Supplies would be debited for \$200.



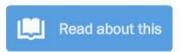


\$1,000 of cash was received in advance of performing services. By the end of the period, \$300 had not yet been earned. (The Unearned revenue account was increased at the time of the initial cash receipt.) Demonstrate the required adjusting journal entry by selecting from the choices below. (Check all that apply.)



The matching principle aims to record expenses (expenses/assets/liabilities) in the same accounting period as the revenues (expenses/revenues/assets) that are earned as a result of those costs. This principle is a major part of the adjusting (timing/adjusting/estimating) process.

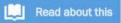






Which of the following statements about the Accumulated depreciation account is (are) *correct*? (Check all that apply.)

✓ Your answer is correct.



Accumulated depreciation accumulates the total depreciation taken on an asset since its purchase.

Accumulated depreciation is an expense account.

Accumulated depreciation is added to its plant asset on the income statement.

The Accumulated depreciation account allows the original cost of the asset to remain in the plant asset account.

Accumulated depreciation is a contra account.

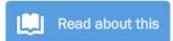
Accumulated depreciation is subtracted from its plant asset on the balance sheet.



A \$300,000 building was purchased on Dec 1. It is estimated that it will have a life of 20 years. Calculate depreciation expense for the month of December using straight-line depreciation.

✓ Your answer is correct.		Read about this
\$2,500		
\$0		
\$15,000		
✓ \$1,250		
Challenge	ОК	





Depreciation is the process of determining the value of accounts receivable which will be collected in the current period.

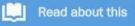
Depreciation is the process of allocating the costs of long-term assets over their expected useful life.

Depreciation is the process of recognizing revenues earned within the current accounting period.



Accrual basis accounting is defined as: (Check all that apply.)

✓ Your answer is correct.



- an accounting system that uses the matching principle to determine when to recognize revenues and expenses.
- an accounting system that uses the adjusting process to recognize revenues when earned and expenses when incurred.

an accounting system which is consistent with generally accepted accounting principles.

an accounting system that recognizes revenues when cash is received and records expenses when cash is paid.



Review the following statements and determine which is (are) *correct* regarding an adjusted trial balance and how it is used In preparing financial statements. (Check all that apply.)

✓ Your answer is correct.

Read about this

- The income statement is the first financial statement prepared after preparing the adjusted trial balance.
- Financial statements are prepared more easily using the adjusted trial balance than with the general ledger.
 - The ending Owner, Capital account balance on the balance sheet is transferred from the statement of owner's equity.
 - The adjusted trial balance includes all accounts and balances appearing in financial statements.
 - The ending Owner, Capital account balance on the balance sheet is taken directly from the adjusted trial balance.

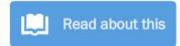
The balance sheet is the first financial statement prepared.



Explain your understanding of a contra account by filling in the following blanks.

A contra account is an account that is linked with another account (report/account/statement). It has a(n) opposite (similar/opposite) balance and is subtracted (added/subtracted) to/from the other account's balance.







\$200 of supplies were purchased at the beginning of the period and recorded as an asset. During the period, \$90 of supplies were used. The adjustment to show the supplies used up would cause assets (assets/liabilities/expenses) to be reduced and expenses(expenses/liabilities,/revenues) to be increased, so net income would decline.

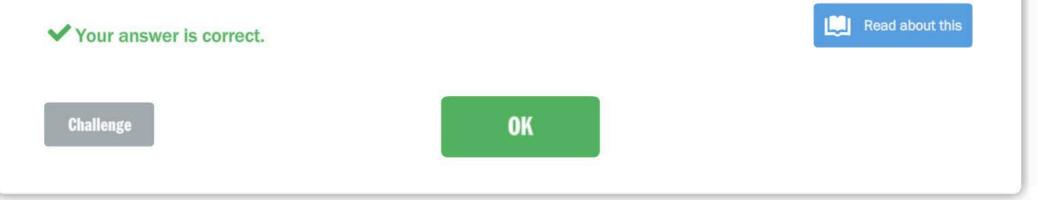


Read about this



Illustrate your understanding of how to use the adjusted trial balance to prepare the balance sheet by completing the following sentence.

In order to prepare a balance sheet using the account balances on an adjusted trial balance, all of the assets (expenses/assets) and their debit balances are transferred to the balance sheet as well as all of the liabilities (liabilities/revenues) and their credit(debit/credit) balances.



What is the book value of an asset?

✓ Your answer is correct.



Book value is the original cost of an asset plus its accumulated depreciation

Book value is the difference between the original cost of an asset and its fair market value.

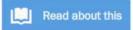
Book value is the original cost of an asset less its accumulated depreciation.

Book value is another name for the original cost of an asset.



Which of the following refers to the preparation of an adjusted trial balance? (Check all that apply.)

✓ Your answer is correct.



An adjusted trial balance is a list of accounts and balances prepared before adjustments are posted.

The debit and credit column totals don't have to equal each other on an adjusted trial balance.

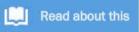
- The debit and credit column totals must balance.
- An adjusted trial balance is prepared after adjustments have been posted.
- New accounts may need to be added because of the adjusting process.
- Accounts are generally listed in the same order as listed in the chart of accounts.
 - An adjusted trial balance has one debit column and one credit column.





Cash basis accounting is defined as:

✓ Your answer is correct.



an accounting system which is consistent with generally accepted accounting principles

an accounting system that uses the adjusting process to recognize revenues when earned and expenses when incurred

an accounting system which recognizes revenues when cash is received and records expenses when cash is paid

an accounting system that uses the matching principle to determine when to recognize revenues and expenses



Which of the following accounts would be considered a prepaid expense or prepaid asset account? (Check all that apply.)

✓ Your answer is correct.		Read about this
Accounts payable		
Prepaid rent		
Prepaid insurance		
V Supplies		
Owner, Capital		
Challenge	ОК	

Which of the following lists of assets would be classified as plant assets?



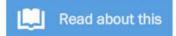
Buildings, Equipment

Land, Accounts receivable

Buildings, Office supplies

Equipment, Cash





Explain the difference between the unadjusted and the adjusted trial balance.

✓ Your answer is correct.

Read about this

The adjusted trial balance contains only the accounts which were adjusted. The unadjusted trial balance contains all of the remaining accounts.

The unadjusted trial balance is more accurate and should be used to prepare financial statements.

~

The adjusted trial balance is prepared after adjusting entries have been recorded and posted.

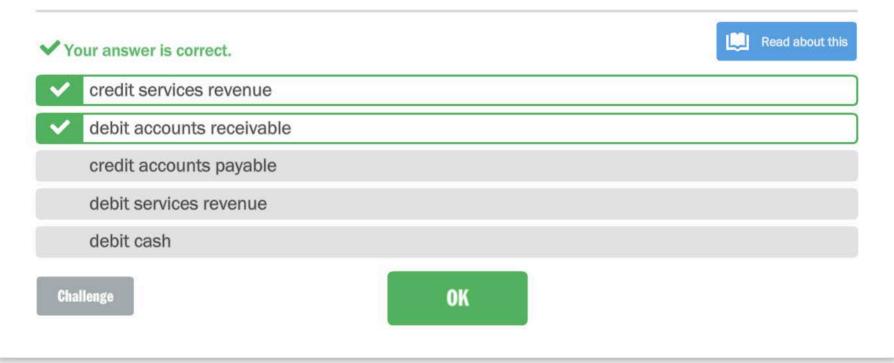
The unadjusted trial balance is more up to date than the adjusted trial balance.



What is needed in order to figure interest expense? (Check all that apply.)

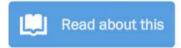
✓ Your answer is correct.	Read about this
Salvage value	
Original cost of asset	
Annual interest rate	
Years of useful life	
Principal amount owed	
 Fraction of year since last payment 	
Challenge	

StoryBook Company provided services to several customers during the month of December. These services have not yet been paid by the customers. StoryBook should record the following adjusting entry at the end of December:



The formula to figure out the profit margin of a company is <u>net income</u> (Net income/Accounts receivable/Net sales) divided by <u>net sales</u> (Net income/Cash/Net sales).







On December 1, 2015, a company pays \$3,600 for a 36-month insurance policy. After one month, accrual accounting requires \$100 (100/3,600) of insurance expense be reported on the income statement ending December 31, 2015. However, if cash basis accounting is used, \$3,600 (100/3,600) of insurance expense would be reported at the time of purchase.





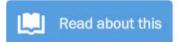
Read about this

A business has a \$10,000 loan from a bank at 8% annual interest. Calculate the amount of interest to accrue if the loan has been outstanding for 45 days. Use a 360 day year.

✓ Your answer is correct.		Read about this
\$800		
\$360		
✓ \$100		
\$98.63		
Challenge	ОК	

Define the Salaries payable account by selecting the appropriate statement below.





It reports amounts owed to employees and is reported on the income statement.

It is increased with a debit and is considered an asset account.

It reports amounts owed to employees and is a liability.

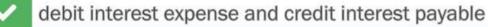
It reports amounts owed to employees and is an asset.



The Fish Aquarium obtained funds from a bank and owes interest on a note at the end of the month. The required adjusting journal entry will



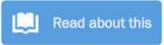
debit interest expense and credit cash



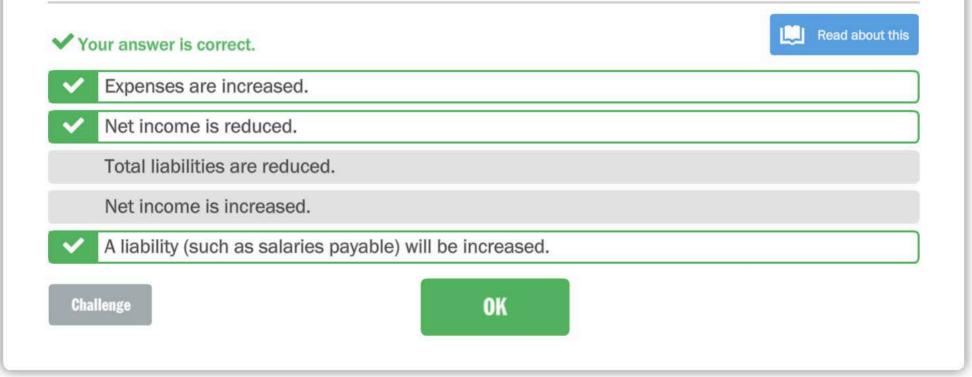
debit interest payable and credit interest expense

debit interest payable and credit cash





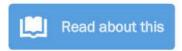
What is the effect of an accrued expense (such as salaries expense) adjustment on the income statement and the balance sheet? (Check all that apply.)



The correct answer is shown.

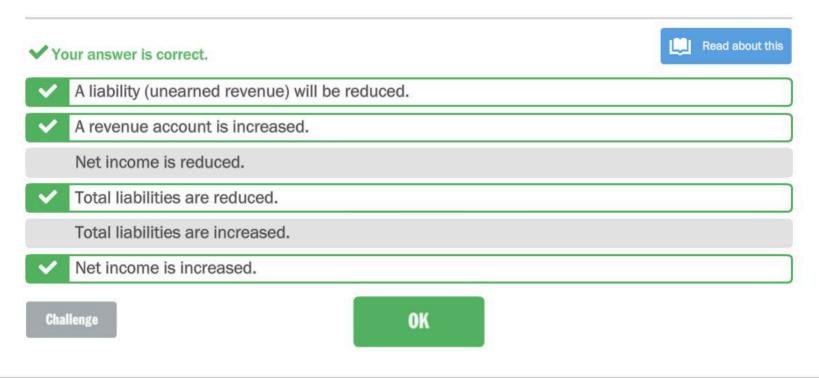
A calendar-year-end reporting period is defined as a 12(1/3/12) -month period which ends on December (December/January/March) 31st.







Describe the effect of the adjusting entry to show the earned amount of a previously recorded unearned revenue on the income statement and on the balance sheet by choosing the *correct* statements below. (Check all that apply.)



Given the following information for Mouse Inc., calculate its profit margin for the year 2014.

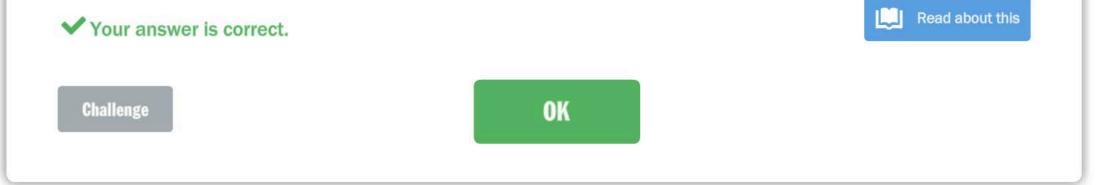
\$ in thousands	2014	2015
Net income	\$ 500	\$ 450
Net sales	3500	3650
Accounts receivable	2150	1500

✓ Your answer is correct.		Read about this
7%		
57%		
✓ 14.29%		
61.42%		
Challenge	OK	

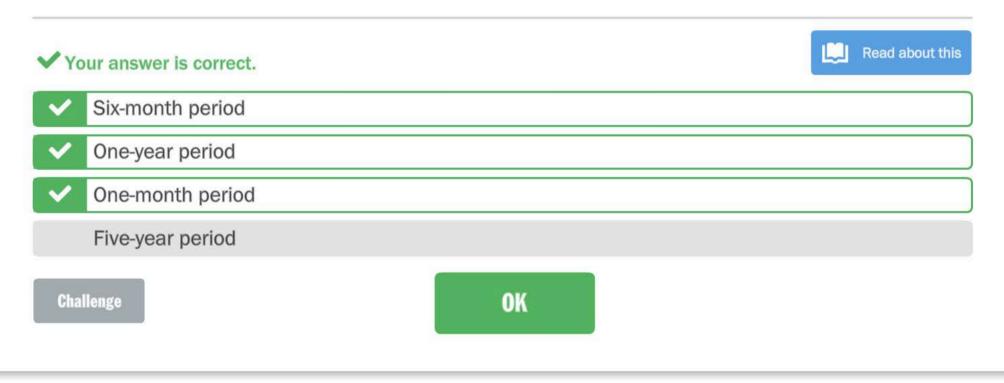
The correct answer is shown.

Describe the difference that exists between U.S. GAAP and IFRS in adjusting accounts by completing the following sentence.

both(Both/Neither) U. S. GAAP and (and/nor) IFRS provide guidance for adjusting accounts at period end which include deferrals and accruals.



Which of the following could be a logical or realistic accounting period for a business that is creating financial statements? (Check all that apply.)



The revenue recognition principle states that revenue:

✓ Your answer is correct.

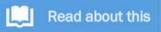
should be recorded when payment has been received

is recognized when expenses are paid

should be recorded when it is earned

should be recorded at the end of the accounting cycle





The correct answer is shown.

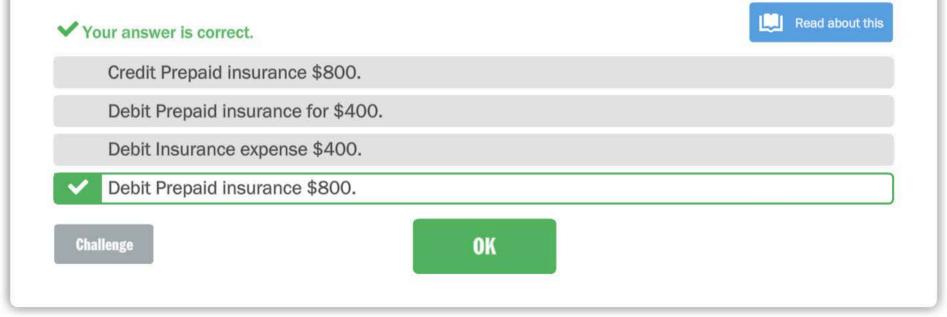
Cash received from a customer for unearned subscription revenue can initially be recorded as either a(n) revenue (revenue/expense) or a(n) liability (liability/expense). No matter how an unearned revenue was initially recorded, after the adjusting entry, net income will be identical.

✓ Your answer is correct.

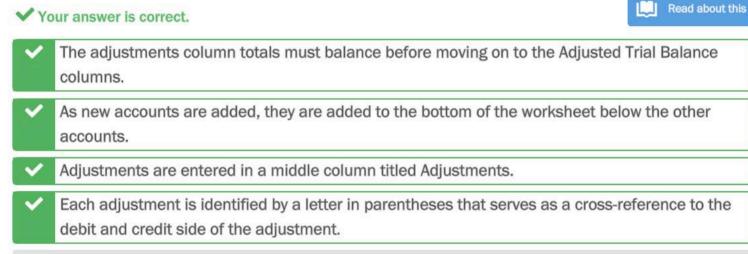




Mouse Inc. uses the *alternative* method of accounting for prepayments and purchased a \$1,200, 6-month insurance policy. The company immediately debited the Insurance expense account. By the end of the period, \$400 of the policy had expired. Demonstrate the required adjustment needed at the end of the period.



Which of the following statements accurately explains how to use a worksheet to enter adjustments? (Check all that apply.)



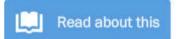
Only the debited or credited account of each adjustment needs to be shown-not both accounts.

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What defines a fiscal year for a business?

✓ Your answer is correct.



It is any period which consists of 12 consecutive months.

It is a year in which financial statements are audited.

It is any period which consists of 48 consecutive weeks.

It is a 12-month period always ending on December 31.



Rather than debiting an asset account, which of the following statements explains an alternate recording procedure to journalize prepaid expenses, such as prepaid rent or supplies. (Check all that apply.)

Read about this



Record all prepaid expenses with credits to liability accounts.

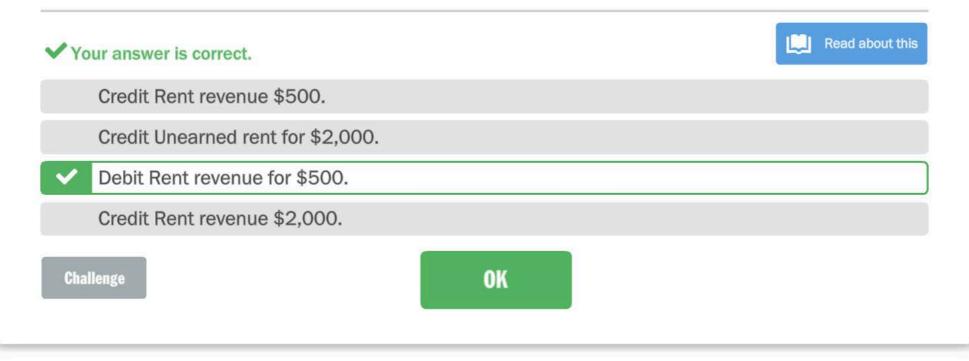
Record all prepaid expenses with debits to expense accounts.

Record all prepaid expenses with credits to expense accounts

Any unused prepaids existing at end of period are transferred to asset accounts.



Mouse Inc. received a \$2,500 prepayment of rent from one of its tenants and immediately credited the Rent revenue account. By the end of the period, \$500 of the rent had not been earned by Mouse Inc.. Demonstrate the required adjustment needed at the end of the period.



Which of the following statements best explains the posting process of adjusting entries?



Read about this

Posting is done as soon as possible after the adjustments are journalized.

Posting is done after the adjusted trial balance is prepared.

Posting to the ledger is never completed for adjusting entries.

Posting is done after financial statements are prepared.

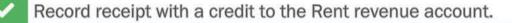


Rather than crediting the Unearned rent account for \$400 of prepaid rent received from a customer, which of the following statements explains an alternate recording procedure to journalize this receipt? (Check all that apply.)

Read about this



Record receipt with a debit to the Rent revenue account.



Any unused portion of the prepayment still existing at the end of the period will be transferred to the Unearned rent account.

Record the receipt of \$400 with a debit to the Unearned rent account.



A prepaid expense (such as supplies or prepaid rent) can initially be recorded as either an expense or as an asset. Demonstrate your understanding of adjusting for prepaid expenses by selecting the statement that is *correct*.

Your answer is correct.

Read about this

If a prepaid expense was initially recorded as an expense, then expenses will be higher on the income statement.

If prepaid expense was initially recorded as an asset, then assets will be higher on the balance sheet.

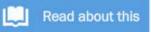
No matter how a prepaid expense was initially recorded, after adjustment, the financial statements will be identical.

If prepaid expense was initially recorded as an asset, then net income will be lower.



Which of the following statements correctly define(s) a profit margin? (Check all that apply.)

✓ Your answer is correct.

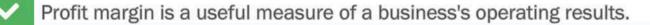


Profit margin is the ratio of a business's net income to its net sales.

Profit margin is also called return on sales.

Profit margin is the ratio of a business's net income to its accounts receivables.

Profit margin is the amount of revenue received on a sale.





What is the date primarily used in adjusting entries?



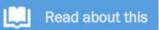
The date is unimportant

The first day of the period

The last day of the period

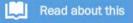
The original date of the transaction being adjusted





Explain your understanding of what an accrued expense is by selecting the statements below which are *correct.* (Check all that apply.)





They refer to earnings which have been earned, but not yet billed.

Adjustments involve increasing both an expense and a liability account.

They are reported on an income statement.

They are also called accounts receivable.

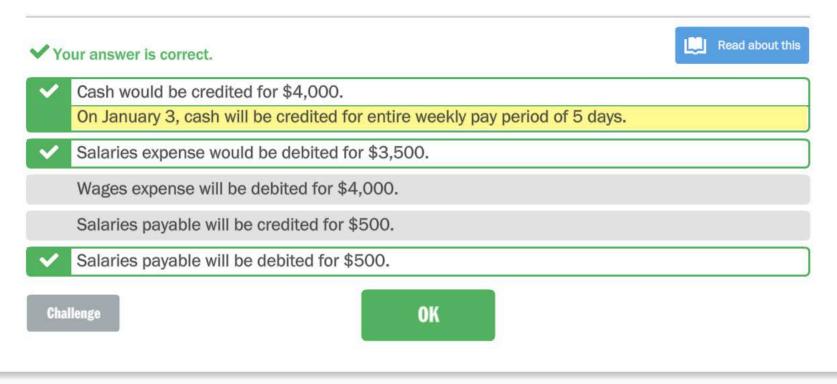


Examples of accrued expenses are wages expense and interest expense.

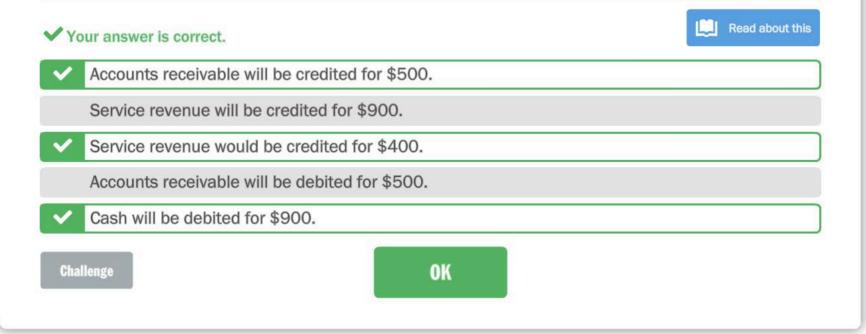
They refer to costs that are incurred in a period, but are both unpaid and unrecorded.



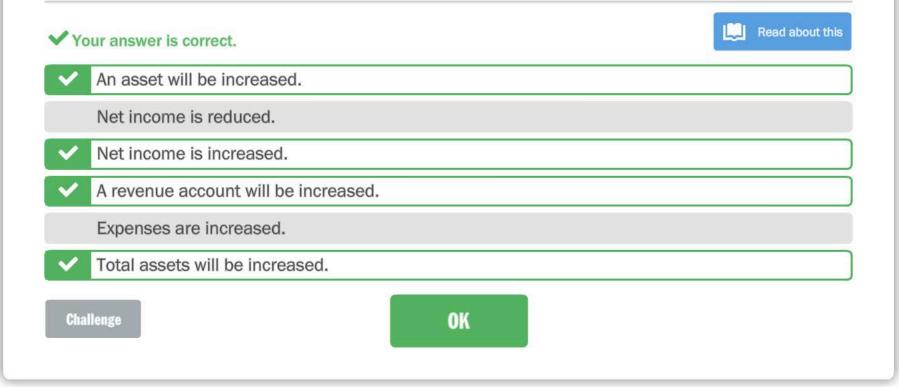
McDarrel's records \$500 of accrued salaries on December 31. Three days later, on January 3, total salaries of \$4,000 (including the \$500 accrued at year end) are paid. Demonstrate the required journal entry on January 3 by selecting from the choices below. (Check all that apply.)



At the end of the previous year, a customer owed Chocolates R US \$500. On January 31 of the current year, the customer paid \$900 total, which included the \$500 owed plus \$400 owed for the current month of January. What would be the journal entry on January 31 that reflects this? (Check all that apply.)

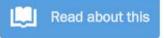


Describe the effect of an accrued revenue adjustment on the income statement and the balance sheet by choosing from the statements below. (Check all that apply.)



Which of the following statements describes why accrual accounting better reflects a business's performance? (Check all that apply.)

✓ Your answer is correct.



Revenues are always recorded in the period in which they are earned.

It provides a better focus and understanding of how cash is spent and why it is received.

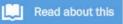
Expenses are always recognized in the period in which they are incurred.

Comparability of financial statements is improved.



Identify the statement(s) below which is (are) *correct* regarding the use of estimates in accounting. (Check all that apply.)





Predictions of revenues and expenses are based on expectations and sometimes included on financial statements.

When following the matching principle, sometimes estimates are used because the actual expense or revenue amount is not yet known.

Matching expenses with revenues often requires us to predict certain events which we are not always able to do.

Estimates of revenues and expenses are used in budgeting, but not on actual financial statements.



Which of the accounts below are considered accrued expenses?



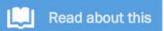
Owner, Capital, Owner, Withdrawal

Unearned revenue, Utility expense

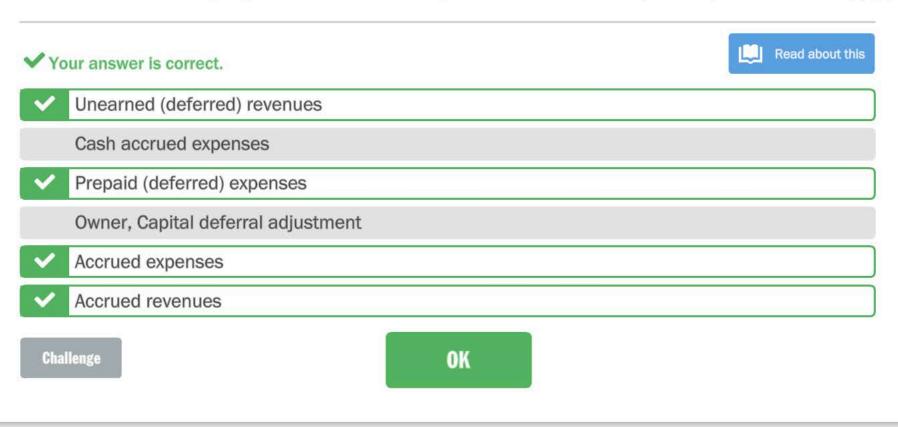
Cash, Building, Equipment

Wages expense, Interest expense





Which of the following adjustments would be required at the end of the period? (Check all that apply.)



Determine which statement(s) below correctly describe(s) the similarities that exist between U. S. GAAP and IFRS in preparing financial statements. (Check all that apply.)





Both IFRS and U.S. GAAP require the income statement to be prepared quarterly.

 Both U. S. GAAP and IFRS balance sheets require current items to be separated from noncurrent items.

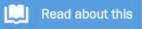
Both U. S. GAAP and IFRS prepare the same four basic financial statements.

Both U. S. GAAP and IFRS balance sheets normally present noncurrent items first and equity before liabilities.



Which of the following describes accrued revenue? (Check all that apply)

✓ Your answer is correct.



The adjustment causes an increase in an asset account and an increase in a revenue account.

Adjustments involve increasing both an expense account and a liability account.

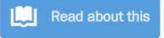
- Accounts receivable is usually increased when accruing revenues.
- They refer to earnings which have been earned but not yet billed.

They refer to revenues that are earned in a period, but have not been received and are unrecorded.



Which of the following is (are) *true* regarding timeliness and the importance of periodic reporting? (Check all that apply.)





The value of information is often linked to its timeliness.

Useful information must reach decision makers frequently and promptly.

Decision makers require financial statements that are audited to insure reliability.

Businesses report financial information at regular intervals to insure timeliness of data.

