

**Financial Accounting for Undergraduates**  
**3<sup>rd</sup> Edition by Wallace, Nelson, Christensen, and Ferris**

**Practice Quiz Solutions**

**Chapter 3. Accrual Basis of Accounting**

1. The expense recognition (matching) principle is best described as:
  - a. Recording only those items on the financial statements that can be expressed in monetary terms
  - b. The notion that the company will operate in the future
  - c. Record an expense in the same time period that the corresponding revenue is recorded
  - d. When in doubt, understate assets and sales revenue and overstate liabilities and expenses

Answer: c

2. On December 1, Optima Corp. paid \$6,000 for rent expense covering December, January and February rent. On December 31, after all adjusting entries, Optima Inc. will report Prepaid Rent of:
  - e. \$6,000
  - f. \$4,000
  - g. \$2,000
  - h. \$0

Answer: b

3. On November 1, Smith & Sons purchased communication equipment costing \$96,000. The equipment will be depreciated over 48 months. The adjusting entry at November 30 would be:

|    | Account Name             | Debit | Credit |
|----|--------------------------|-------|--------|
| a. | Depreciation expense     | 2,000 |        |
|    | Accumulated depreciation |       | 2,000  |
| b. | Depreciation expense     | 2,500 |        |
|    | Accumulated depreciation |       | 2,500  |
| c. | Accumulated depreciation | 2,000 |        |
|    | Depreciation expense     |       | 2,000  |
| d. | Accumulated depreciation | 2,500 |        |
|    | Depreciation expense     |       | 2,500  |

Answer: a

Rationale: \$96,000/48 months

4. On May 1, Phoenix Corporation took out a bank loan of \$500,000 to finance the purchase of equipment. The interest rate on the bank loan is 12 percent per year and interest is due annually on April 30. What would be the effect on the accounting equation of the May 31 adjusting entry for interest?

|    | Assets    | Liabilities      | Shareholders' Equity |
|----|-----------|------------------|----------------------|
| a. | No Effect | Decrease \$5,000 | Decrease \$5,000     |
| b. | No Effect | Increase \$5,000 | Decrease \$5,000     |
| c. | No Effect | Decrease \$5,000 | Increase \$5,000     |
| d. | No Effect | Increase \$5,000 | Increase \$5,000     |

Answer: b

Rationale:  $(\$500,000 \times 12\% \times 1/12)$

5. The Arizona Saguaros Soccer Team sells season tickets and collects the cash in January at the beginning of the season. They collected \$24,000 for season tickets. The soccer season starts in February and the season tickets are for 10 games. In February, the team played 2 games. What adjusting journal entry would the Arizona Saguaros record at the end of February?

|    | <b>Account Name</b> | <b>Debit</b> | <b>Credit</b> |
|----|---------------------|--------------|---------------|
| a. | Revenue             | 1,200        |               |
|    | Unearned revenue    |              | 1,200         |
| b. | Unearned revenue    | 1,200        |               |
|    | Revenue             |              | 1,200         |
| c. | Revenue             | 4,800        |               |
|    | Unearned revenue    |              | 4,800         |
| d. | Unearned revenue    | 4,800        |               |
|    | Revenue             |              | 4,800         |

Answer: *d*

Rationale:  $(\$24,000/10 \text{ games}) \times 2 \text{ games}$

6. The Cholla Corporation earned rental revenue of \$5,000 in December but will not receive this until January. What is the effect of making the adjusting entry at December 31?

|    | <b>Assets</b> | <b>Liabilities</b> | <b>Shareholders' Equity</b> |
|----|---------------|--------------------|-----------------------------|
| a. | Increase      | No Effect          | Decrease                    |
| b. | Increase      | No Effect          | Increase                    |
| c. | No Effect     | Increase           | Decrease                    |
| d. | No Effect     | Increase           | Increase \$5,000            |

Answer: *b*

7. Jojoba, Inc., received a one-year, 10 percent, \$150,000 note receivable on May 1, with interest and principal to be received at maturity. How much interest receivable will be reported on Jojoba's balance sheet as of December 31?
- a. \$ 5,000
  - b. \$ 6,250
  - c. \$ 8,750
  - d. \$10,000
  - e. \$15,000

Answer: *d*

Rationale:  $(\$150,000 \times 10\% \times 8/12)$

8. Jerry's Window Service received \$14,000 from a client on February 20. This payment was an advance payment for 7 months of window cleaning starting March 1. The window cleaning services are provided equally over the 7 months. At May 31, calculate the balance in the unearned revenue account assuming that all adjusting entries have been properly recorded.
- a. \$ 8,000
  - b. \$10,000
  - c. \$14,000
  - d. \$ 6,000

Answer: *a*

Rationale:  $(\$14,000/7 \text{ months}) \times 4 \text{ months}$

9. Mesa Motors received cash in advance from several customers to repair their cars next month. The adjusting entry associated with this is referred to as:
- a. Depreciation
  - b. Deferred Revenue
  - c. Accrued Revenue
  - d. Deferred Expense
  - e. Accrued Expense

Answer: *b*

10. Ocotillo Villas prepared the following adjusted trial balance for the year ended December 31:

|                          | <u>Debits</u> | <u>Credits</u> |
|--------------------------|---------------|----------------|
| Cash                     | \$45,000      |                |
| Revenue                  |               | \$60,000       |
| Common stock             |               | \$50,000       |
| Depreciation expense     | \$8,000       |                |
| Retained earnings        |               | \$15,000       |
| Accounts receivable      | \$15,000      |                |
| Unearned revenue         |               | \$12,000       |
| Cost of goods sold       | \$30,000      |                |
| Equipment                | \$40,000      |                |
| Accumulated depreciation |               | \$14,000       |
| Note payable to bank     |               | \$23,000       |
| Wages expense            | \$6,000       |                |
| Inventory                | \$25,000      |                |
| Dividends                | \$5,000       |                |
| Total                    | \$174,000     | \$174,000      |

Using the adjusted trial balance from above, what is Ocotillo Villas' net income for the year ended December 31?

- a. \$28,000
- b. \$23,000
- c. \$16,000
- d. \$11,000

Answer: c

Rationale:  $(\$60,000 - \$8,000 - \$30,000 - \$6,000)$

11. Temporary accounts:
- a. Have balances that are transferred to a permanent stockholders' equity account at the end of the accounting period
  - b. Have balances that are carried forward to the next accounting period
  - c. Include accounts on both the balance sheet and the income statement
  - d. None of the above

Answer: a

12. Which of the following is *not* an example of a closing entry?
- e. Close each revenue account to the Income Summary account
  - f. Close each expense account to the Income Summary account
  - g. Close the Income Summary account to the Retained Earnings account
  - h. Close the Unearned Revenue account to the Retained Earnings account

Answer: *d*