

Financial Accounting for Undergraduates
3rd 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?

	Account Name	Debit	Credit
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?

	Assets	Liabilities	Shareholders' Equity
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*