

Chapter 3—Adjusting Accounts for Financial Statements

Solutions to Practice Quiz

1. In the accounting cycle, preparing financial statements comes before which of the following steps?
 - a. Analyzing transactions
 - b. Recording deferrals
 - c. Preparing an unadjusted trial balance
 - d. Prepare a post-closing trial balance

Answer: d

Rationale: After financial statements are prepared, temporary accounts are closed and a post-closing trial balance is prepared to make sure that ledger accounts are in balance and ready to start the next accounting period.

2. The process of entering transactions in a general journal is called:
 - a. Posting
 - b. Journalizing
 - c. Charting accounts
 - d. Transaction analysis

Answer: b

Rationale: Journalizing means to record a transaction in a general journal.

3. Which of the following is the best explanation of the purpose of adjusting entries?
 - a. To correct errors made during the accounting period.
 - b. To update the retained earnings for the changes that had been recorded in revenue and expense accounts throughout the period.
 - c. To prepare revenue and expense accounts for the next accounting period.
 - d. To allow matching for the period by recording certain revenue and expenses that are not properly measured during routine daily transactions.

Answer: d

Rationale: Accrual and deferral adjusting entries allow expenses of the period to be matched against revenues, for those transactions that are not typically recorded in daily routine transactions.

4. Mayfair Company has four employees who earn \$750 each per week for a five-day work week ending on Friday. If the last day of the current year falls on Wednesday, the company should make which of the following adjusting entries to accrue the wages for the current year?

a. Wage Expense (+E, -SE)	1,800	
Wages Payable (+L)		1,800
b. Wage Expense (+E, -SE)	3,000	
Cash (-A)		3,000
c. Wages Payable (-L).....	450	
Wage Expense (+E, -SE)		450
d. Wages Payable (-L).....	1,800	
Wage Expense (+E, -SE)		1,800

Answer: a

Rationale: \$ 750 x 3/5 x 4 = \$1,800

Wage Expense (+E, -SE)	1,800	
Wages Payable (+L)		1,800

5. For the year ended December 31, 2016, Joe's Sporting Goods, Inc. purchased merchandise inventory costing \$1,965,427. Assume that all purchases were made on account. The following T-accounts reflect information contained in the company's 2015 and 2016 balance sheets:

+ Inventories (A) -		- Accounts Payable (L) +	
12/31/2015 Bal	457,618		211,685
12/31/2016 Bal	535,698		253,395

What amount did Joe's pay in cash to its suppliers for the year ended December 31, 2016? Assume that Accounts Payable is affected only by transactions related to inventory.

- a. \$1,965,427
b. \$1,923,717
c. \$2,007,137
d. \$1,845,637

Answer: b

Rationale: \$211,685 + \$1,965,427 - \$253,395 = \$1,923,717

6. For the year ended December 31, 2016, Barney's Books purchased inventory costing \$3,572,428. Assume that all purchases were made on account. The following T-accounts reflect information contained in the company's 2015 and 2016 balance sheets:

+	Inventories (A)	-	-	Accounts Payable (L)	+
12/31/2015 Bal	1,274,578			745,073	12/31/2015 Bal
12/31/2016 Bal	1,313,997			828,852	12/31/2016 Bal

What amount did Barney's record as cost of goods sold for 2016?

- a. \$3,572,428
- b. \$3,449,230
- c. \$3,533,009
- d. \$3,611,847

Answer: c

Rationale: $\$1,274,578 + \$3,572,428 - \$1,313,997 = \$3,533,009$

**Below is the adjusted trial balance for Yang Service Company.
Use this information to answer Questions 7-10.**

YANG SERVICE COMPANY			
Adjusted Trial Balance			
December 31, 2016			
Cash	\$17,750		
Accounts receivable	16,375		
Office equipment	7,500		
Accumulated Depreciation		\$ 3,000	
Accounts payable		6,375	
Common Stock		11,250	
Retained earnings (1/1/16)		10,000	
Service Revenue		52,750	
Salaries expense	18,000		
Advertising expense	11,625		
Depreciation expense	12,125		
	<u>\$83,375</u>		<u>\$83,375</u>

7. Based on Yang's adjusted trial balance, the entry to close Advertising Expense will:
- a. Include a credit to Retained Earnings
 - b. Include a debit to Common Stock
 - c. Include a credit to Cash
 - d. Include a credit to Advertising Expense

Answer: d

Rationale: When expenses are closed to Retained Earnings, expenses, such as Advertising Expense will be credited and Retained Earnings will be debited.

8. Based on Yang's adjusted trial balance, the entry to close Service Revenue will:
- a. Include a credit to Retained Earnings
 - b. Include a debit to Common Stock
 - c. Include a debit to Cash
 - d. Include a credit to Service Revenue

Answer: a

Rationale: When revenues are closed to Retained Earnings, revenues, such as Service Revenue will be debited and Retained Earnings will be credited.

9. Based on Yang's adjusted trial balance, Net Income for the period equals:
- a. \$32,250
 - b. \$52,750
 - c. \$11,000
 - d. \$0

Answer: c

Rationale: $\$52,750 - 18,000 - 11,625 - 12,125 = \$11,000$

10. Based on Yang's information, the balance of Retained Earnings after closing on December 31, 2016 will be:
- a. \$21,000
 - b. \$10,000
 - c. \$62,750
 - d. \$42,250

Answer: a

Rationale: $\$10,000 + 11,000 = \$21,000$