

1.9: End-of-Chapter Exercises

Questions

1. What is a transaction?
2. Where was the accounting system developed that is still used by businesses today?
3. What is this system called?
4. What are the four steps followed by accounting systems?
5. By what is financial information accumulated?
6. Define "T-account."
7. Which accounts are increased with a debit?
8. Which accounts are increased with a credit?
9. What is a journal in the accounting sense?
10. What is a trial balance?
11. Accrual accounting is composed of which two principles? Define each.
12. Define "unearned revenue."
13. What is the purpose of adjusting entries?
14. Name the four general types of adjustments.
15. Give three examples of accrued expenses.
16. Briefly explain why it is difficult for accountants to determine whether or not revenue has been earned if the sales process is not complete.
17. Give an example of business or industry where customers usually pay for the product or service in advance.
18. What type of account is unearned revenue?
19. When should a company reclassify unearned revenue to revenue?
20. Why do companies produce a second trial balance? When is this second trial balance prepared?
21. Why do accountants prepare closing entries?
22. Into which account are revenues and expenses closed?

True or False

1. ____ Debits and credits must equal for every transaction.
2. ____ A list of all recorded journal entries is maintained in the ledger.
3. ____ Revenue may not be recorded until cash is collected.
4. ____ A transaction is any event that has a financial impact on a company.
5. ____ An expense account is increased with a credit.
6. ____ Examples of accrued expenses include salary, rent, and interest.
7. ____ Posting refers to process of recording journal entries.
8. ____ A company must recognize an accrued expense as incurred.
9. ____ The matching principle states that expenses should be recognized in the same period as the revenues they help generate.
10. ____ Unearned revenue is a type of revenue account.
11. ____ Determining when to recognize revenue can be difficult for accountants.
12. ____ Only permanent accounts are closed at the end of the financial statement cycle.
13. ____ Some changes to accounts occur because of the passage of time.
14. ____ Accountants do not have to exercise much judgment because there are so many rules to follow.
15. ____ Assets, liabilities and owners' equity accounts will start each financial statement cycle with the same balance they had at the end of the previous cycle.
16. ____ The word "accrue" means "to grow."
17. ____ Companies have some discretion in how and when they record accruals.
18. ____ The purpose of adjusting entries is to bring the balance in temporary accounts to zero at the end of the reporting cycle.
19. ____ Only one trial balance is prepared during a financial statement cycle.

Multiple Choice

1. Which of the following is **not** true about double-entry bookkeeping?

1. It originated in Italy.
2. Debits and credits must equal.
3. It is still used today.
4. An entry can have no more than one credit and one debit.

2. Which of the following entries could Yeats Company not make when they perform a service for a client?

1.

| | | |
|---------------------|-----|-----|
| Accounts Receivable | XXX | |
| Revenue | | XXX |

| | | |
|---------|-----|-----|
| Cash | XXX | |
| Revenue | | XXX |

2.

| | | |
|---------------------|-----|-----|
| Cash | XXX | |
| Accounts Receivable | XXX | |
| Revenue | | XXX |

3.

| | | |
|------------------|-----|-----|
| Accounts Payable | XXX | |
| Revenue | | XXX |

4.

3. Which of the following is a transaction for Tyler Corporation?

1. Tyler pays its employees \$400 for work done.
2. Tyler considers renting office space that will cost \$1,500 per month.
3. Tyler agrees to perform services for a client, which will cost \$7,000.
4. Tyler places an order for supplies that will be delivered in two weeks. The supplies cost \$200.

4. Elenor Company sells 400 units of inventory for \$40 each. The inventory originally cost Elenor \$26 each. What is Elenor's gross profit on this transaction?

1. \$16,000
2. \$10,400
3. \$ 5,600
4. \$ 9,600

5. Which of the following increases with a debit?

1. Retained earnings
2. Sales revenue
3. Inventory
4. Note payable

6. Which of the following accounts would be closed at the end of the financial statement cycle?
1. Accounts receivable
 2. Accounts payable
 3. Cost of goods sold
 4. Unearned revenue
7. Jenkins Company received \$600 from a client in May for work Jenkins would perform during May and June it is appropriately recorded as unearned revenue when received. What entry should Jenkins make on May 31 if one-third of the work is complete on that date?
1. Debit Cash \$600 and credit Revenue \$600.
 2. Debit Unearned Revenue \$200 and credit Revenue \$200.
 3. Debit Cash \$600 and Credit Revenue \$600.
 4. Debit Unearned Revenue \$600 and Credit Revenue \$600
8. Which of the following accounts would increase retained earnings when closed into it?
1. Dividends
 2. Sales revenue
 3. Loss of sale of land
 4. Rent expense
9. Which of the following is **not** one of the four types of adjustments?
1. Prepaid revenue
 2. Accrued expenses
 3. Unearned revenue
 4. Prepaid expenses
10. In September 20X3, LaToya Corporation paid for insurance for the next six months in the amount of \$42,000. On December 31, LaToya's accountant forgot to make the adjusting entry that was needed. Which of the following is true?
1. Assets are understated by \$42,000.
 2. Net income is understated by \$14,000.
 3. Expenses are overstated by \$42,000.
 4. Net income is overstated by \$28,000.

Problems

1. Record the following journal entries for Taylor Company for the month of March:
1. Borrowed \$4,500 from Local Bank and Trust
 2. Investors contributed \$10,000 in cash for shares of stock
 3. Bought inventory costing \$2,000 on credit
 4. Sold inventory that originally cost \$400 for \$600 on credit
 5. Purchased a new piece of equipment for \$900 cash
 6. Collected \$600 in cash from sale of inventory in (d) above
 7. Paid for inventory purchased in (c) above
 8. Paid \$1,200 in cash for an insurance policy that covers the next year
 9. Employees earned \$3,000 during the month but have not yet been paid
 10. Paid employees \$2,400 for wages earned and recorded during February

2. For each of the following transactions, determine if Raymond Corporation has earned revenue during the month of May and, if so, how much it has earned.
 1. Customers paid Raymond \$1,500 for work Raymond will perform in June.
 2. Customers purchased \$6,000 of inventory for which they have not yet paid.
 3. Raymond performed work for customers and was paid \$3,400 in cash.
 4. Customers paid Raymond \$2,300 for inventory purchased in April.
3. Record the journal entries for number 2 above.
4. Determine the missing account balance in the following trial balance:

Figure 1.23 Trial Balance—Ester Company

| Ester Company Trial Balance 12/31/20XX | | |
|--|---------|---------|
| Account Title | Debits | Credits |
| Cash | \$4,600 | |
| Accounts Receivable | 11,000 | |
| Inventory | 15,090 | |
| Accounts Payable | | \$3,600 |
| Note Payable | | 13,000 |
| Capital Stock | | 5,000 |
| Retained Earnings, 1/1/20XX | | 2,200 |
| Sales Revenue | | 19,050 |
| Cost of Goods Sold | ????? | |
| Salary Expense | 1,500 | |

5. State which balance, debit, or credit is normally held by the following accounts:
 1. Cash
 2. Dividends
 3. Notes payable
 4. Unearned revenue
 5. Cost of goods sold
 6. Prepaid insurance
 7. Accounts receivable
 8. Capital stock
6. Near the end of her freshman year at college, Heather Miller is faced with the decision of whether to get a summer job, go to summer school, or start a summer dress making business. Heather has had some experience designing and sewing and believes it might be the most lucrative of her summer alternatives. She starts “Sew Cool.”

During June, the first month of business, the following occur:

1. Heather deposits \$1,000 of her own money into Sew Cool’s checking account.
2. Sew Cool purchases equipment for \$1,000. The company signs a note payable for this purchase.

3. Sew Cool purchases \$1,000 in sewing supplies and material in cash.
 4. Sew Cool gives Heather's parents a check for \$80 for rent and utilities.
 5. Heather sews and sells twenty dresses during the month. Each dress has a price of \$60. Cash is received for twelve of the dresses, with customers owing for the remaining eight.
 6. The dresses sold above cost \$35 each to make.
 7. Sew Cool purchases advertising for \$50 cash.
 8. Sew Cool pays Heather a cash dividend of \$10 cash.
 9. Sew Cool's taxes, paid in cash, amount to \$80.
1. Prepare journal entries for the above transactions.
 2. Prepare T-accounts for each account used.
 3. Prepare a trial balance for June.

7. Bowling Corporation had the following transactions occur during February:

1. Bowling purchased \$450,000 in inventory on credit.
2. Bowling received \$13,000 in cash from customers for subscriptions that will not begin until the following month.
3. Bowling signed a note from Midwest Bank for \$67,000.
4. Bowling sold all the inventory purchased in (a) above for \$700,000 on account.
5. Bowling paid employees \$120,000 for services performed during January.
6. Bowling purchased land for \$56,000 in cash.
7. Bowling received \$650,000 in cash from customers paying off January's accounts receivable.
8. Bowling paid dividends to stockholders in the amount of \$4,000.
9. Bowling owes its employees \$123,000 for work performed during February but not yet paid.
10. Bowling paid \$300,000 on its accounts payable.
11. Bowling paid taxes in cash of \$45,000.

Required:

1. Prepare journal entries for the above transactions.
2. Complete the T-accounts below. Numbers already under the accounts represent the prior balance in that account.

Opening T-Account Balances

| | | | | |
|-------------------------|----------------------------|---------------------|-------------|-------------------------|
| <u>Cash</u> | <u>Accounts Receivable</u> | <u>Inventory</u> | <u>Land</u> | <u>Accounts Payable</u> |
| 500,000 | 650,000 | 0 | 22,000 | 100,000 |
| | | | | |
| <u>Unearned Revenue</u> | <u>Salary Payable</u> | <u>Note Payable</u> | | <u>Capital Stock</u> |
| 0 | 120,000 | | 430,000 | 302,000 |

| | | | |
|--------------------------|----------------------|---------------------------|-----------------------|
| <u>Retained Earnings</u> | <u>Sales Revenue</u> | <u>Cost of Goods Sold</u> | <u>Salary Expense</u> |
| 220,000 | 0 | 0 | 0 |
| | | | |
| <u>Tax Expense</u> | <u>Dividends</u> | | |
| 0 | 0 | | |

1. Prepare a trial balance for February.
8. Determine if the following adjusting entries are
 - accrued expense (AE)
 - prepaid expense (PE)
 - accrued revenue (AR)
 - unearned revenue (UR)
 1. ____ Atlas Magazine was previously prepaid \$400,000 by subscribers and has delivered half of the magazines ordered.
 2. ____ Hornsby Company agreed to provide 1,000 units of its product to Michaels Inc. and has substantially completed the agreement.
 3. ____ Nancy and Sons owes its employees \$30,000 for work done over the past two weeks.
 4. ____ Replay Inc. advertised on TV 44 during the month of April, but has not yet made an entry to record the event.
 5. ____ Centurion Company paid Reliable Insurance Company \$54,000 for insurance for twelve months, six of which have passed.
 6. ____ Reliable Insurance Company received a payment of \$54,000 for insurance for twelve months from Centurion Company and six months have passed.
9. Determine if the following transactions for Marlin Corporation require an adjustment or not. If an adjusting entry is required, give the correct entry.
 1. At the beginning of the month, Marlin agreed to perform services for the next three months for Catsui Corporation for \$30,000 per month. Catsui paid Marlin \$90,000 in advance. One month has now passed.
 2. Marlin pays its employees every two weeks. At the end of the month, Marlin owes its employees \$480,000, but will not pay them until the following week.
 3. Marlin paid \$300,000 for rent at the beginning of the month by debiting prepaid rent and crediting cash. The \$300,000 covered six months of occupancy, but only one month has passed.
 4. At the beginning of the month, Marlin agreed to perform services for Ryland Company for \$16,000 per month for the next six months. Ryland has not yet paid any cash to Marlin and the work is not substantially complete.
10. Leon Jackson is ecstatic! First National Bank just approved a loan for Leon to start a Web site design and maintenance business called Webworks. He is now ready to purchase his needed equipment, hire his administrative help, and begin designing sites. During June, his first month of business, the following occur:
 - a. Webworks signs a note at the bank and is given \$10,000 cash.
 - b. Leon deposits \$2,000 of his own money into Webworks's checking account.
 - c. Webworks purchases a new computer and additional equipment for \$3,000.
 - d. Webworks purchases supplies worth \$200 on account that should last Webworks two months.
 - e. Webworks hires Nancy Po to assist with administrative tasks. She will charge \$100 per Web site for her assistance.
 - f. Webworks begins working on his first two Web sites, one for Juan Sanchez, a friend of his dad's and the other for Pauline Smith, a local businesswoman.
 - g. Webworks completes the site for Mr. Sanchez and sends him a bill for \$600.
 - h. Webworks completes the site for Ms. Smith and sends her a bill for \$450.
 - i. Webworks collects \$600 in cash from Mr. Sanchez.
 - j. Webworks pays Nancy \$100 for her work on Mr. Sanchez's Web site.
 - k. Webworks receives \$500 in advance to work on a Web site for a local restaurant. Work on the site will not begin until July.
 - l. Webworks pays taxes of \$200 in cash.

1

Required:

- A. Prepare journal entries for the above events if needed.
- B. Post the journal entries to T-accounts.
- C. Prepare an unadjusted trial balance for Webworks for June.
- D. Prepare adjusting entries for the following and post them to your T-accounts, adding any additional T-accounts as necessary.
 - m. Webworks owes Nancy \$100 for her work on Ms. Smith's Web site.
 - n. Leon's parents let him know that Webworks owes \$80 toward the electricity bill. Webworks will pay them in July.
 - o. Webworks only used half of the supplies purchased in (d) above.
- E. Prepare an adjusted trial balance for Webworks for June.

11. Jan Haley owns and operates Haley's Dry Cleaners. The following occurred during December:

- a. On December 1, Haley prepaid rent on her store for December and January with \$2,000 cash.
- b. On December 1, Haley purchased insurance with cash in the amount of \$2,400 that will last six months.
- c. Haley paid \$900 of her accounts payable balance.
- d. Haley paid off all of her salaries payable balance.
- e. Haley purchased supplies on account in the amount of \$2,400.
- f. Haley paid a salary to her assistant of \$1,000 in cash for work done in the first two weeks of December.
- g. Haley dry-cleaned clothes for customers on account in the amount of \$8,000.
- h. Haley collected \$6,300 of her accounts receivable balance.
- i. Haley paid tax of \$750 in cash.

Required:

- A. Prepare the journal entry for each transaction.
- B. Prepare all necessary T-accounts. Numbers already under the accounts represent the prior balance in that account.

Opening

T-Account

Balances

| | | | | |
|----------------------------------|-------------------------------------|------------------------------|-------------------------------|----------------------|
| <u>Cash</u> 5,000 | <u>Accounts Receivable</u> 6,500 | <u>Prepaid Rent</u> 0 | <u>Prepaid Insurance</u> 0 | <u>Supplies</u> 0 |
| <u>Accounts Payable</u> 1,200 | <u>Salary Payable</u> 1,000 | <u>Note Payable</u> 4,000 | <u>Capital Stock</u> 3,000 | |

| | | | |
|-----------------------------------|-------------------------------|------------------------------|----------------------------|
| <u>Retained Earnings</u> 2,300 | <u>Sales Revenue</u> 0 | <u>Supplies Expense</u> 0 | <u>Salary Expense</u> 0 |
| <u>Rent Expense</u> 0 | <u>Insurance Expense</u> 0 | <u>Tax Expense</u> 0 | |

C. Prepare a trial balance dated 12/31/XX.

D. Make the following adjusting entries for the month of December and post them to the T-accounts:

j. Rent expense.

k. Insurance expense.

l. Haley owes her assistant \$1,000 for work done during the last two weeks of December.

m. An inventory of supplies shows \$400 in supplies remaining on December 31.

E. Prepare an adjusted trial balance dated 12/31/XX.

F. Prepare an income statement, statement of retained earnings, and balance sheet for the month ending December 31, 20XX.

12. On January 1, Kevin Reynolds, a student at State U, decides to start a business. Kevin has noticed that various student organizations around campus are having more and more need for mass produced copies of programs on CDs. While a lot of students have a CD drive on their computers that can write to CDs, it is a slow process when a high volume of CDs is needed.

Kevin believes that with a beginning investment in specialty equipment, he can provide a valuable product to the college community. So on 1/1, Kevin officially begins “Kevin’s Kool CD Kopies.” Of course, Kevin is very careful to ensure that his customers have full ownership rights to the material on their CDs.

Part 1:

The following occur during January.

1. Kevin deposits \$500 of his own money into the company’s checking account.

2. Kevin signs a note payable in the amount of \$1,000 from Neighborhood Bank. The note is due in one year.

3. KKCDK (Kevin’s Kool CD Kopies) purchases a CD duplicator (a piece of equipment), which can copy seven CDs at one time. The cost is \$1,300 and he pays cash.

4. KKCDK purchases 500 blank CDs for \$150 on account.

5. KKCDK pays \$20 cash for flyers to advertise.

6. KKCDK quickly catches on with the student groups on campus. KKCDK sells 400 CDs to various groups for \$0.80 per CD. KKCDK receives cash payment for 300 of the CDs and the student groups owe for the other 100 CDs.

7. KKCDK pays \$100 on its accounts payable.

8. KKCDK receives \$40 in advance to copy 50 CDs for a student group. He will not begin work on the project until February.

9. KKCDK incurs \$40 in tax expense. The taxes will be paid in February.

Required:

A. Prepare journal entries for the above events if needed.

B. Post the journal entries to T-accounts.

C. Prepare an unadjusted trial balance for KKCDK for January.

D. Prepare adjusting entries for the following and post them to your T-accounts.

10. Kevin’s roommate, Mark, helps with the CD copying and delivering. KKCDK pays Mark a salary of \$50 per month. Mark will get his first check on February 1.

11. KKCDK incurs \$10 in interest expense. The interest will be paid with the note.

E. Prepare an adjusted trial balance for KKCDK for January.

F. Prepare financial statements for KKCDK for January.

Part II: The following occur in February:

12. Kevin decides to expand outside the college. On the first day of the month, KKCDK pays \$20 in advance for advertising in the local paper. The advertisements will run during February and March.
13. The student groups paid for the 100 CDs not paid for in January.
14. KKCDK paid off its remaining accounts payable, salaries payable, taxes payable and interest payable.
15. KKCDK purchases 450 CDs for \$135 on account.
16. KKCDK sells 500 CDs during the month for \$0.80 each. KKCDK receives cash for 450 of them and is owed for the other 50.
17. KKCDK completes and delivers the advanced order of 50 CDs described in number 8 above.
18. KKCDK incurs \$80 in tax expense. The taxes will be paid in March.

Required:

- G. Prepare journal entries for the above events if needed.
- H. Post the journal entries to the T-accounts.
- I. Prepare an unadjusted trial balance for KKCDK for February.
- J. Prepare adjusting entries for the following and post them to your T-accounts.
19. Mark continues to earn his salary of \$50 and will be paid on March 1.
20. An adjustment is made for advertising in number 12 above.
21. KKCDK incurs \$10 in interest expense. The interest will be paid with the note.
- K. Prepare an adjusted trial balance for KKCDK for February.
- L. Prepare the financial statements for February

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