***Survey of Accounting, 5e* (Edmonds)**
Chapter 2 Accounting for Accruals and Deferrals

1) Bledsoe Company received $17,000 cash from the issue of stock on January 1, Year 1. During Year 1, Bledsoe earned $8,500 of revenue on account. The company collected $6,000 cash from accounts receivable and paid $5,400 cash for operating expenses. Based on this information alone, during Year 1,
A) Total assets increased by $20,100.
B) Total assets increased by $600.
C) Total assets increased by $26,100.
D) Total assets did not change.

2) Addison Company experienced an accounting event that affected its financial statements as indicated below:

Assets	=	Liab.	+	Equity	Rev.	−	Exp.	=	Net Inc.	Cash Flow
+		NA		+	+		NA		+	NA

Which of the following accounting events could have caused these effects on Addison's statements?
A) Issued common stock.
B) Earned revenue on account.
C) Earned cash revenue.
D) Collected cash from accounts receivable.

3) Which of the following choices accurately reflects how the recording of accrued salary expense affects the financial statements of a business?

	Assets	**=**	**Liab.**	**+**	**Equity**	**Rev.**	**-**	**Exp.**	**=**	**Net Inc.**	**Cash Flow**
A.	NA	=	+	+	-	-	-	+	=	NA	NA
B.	NA	=	NA	+	+/-	NA	-	NA	=	NA	NA
C.	NA	=	+	+	-	NA	-	+	=	-	NA
D.	+	=	+	+	NA	NA	-	+	=	-	-OA

A) Option A
B) Option B
C) Option C
D) Option D

4) Which of the following transactions does **not** involve an accrual?
A) Recording interest earned that will be received in the next period.
B) Recording operating expense incurred but not yet paid.
C) Recording salary expense incurred but not yet paid.
D) Recording the pre-payment of two years' worth of insurance.

Copyright ©2018 McGraw-Hill

5) Jantzen Company recorded employee salaries earned but not yet paid. Which of the following represents the effect of this transaction on the financial statements?

	Assets	=	Liab.	+	Equity	Rev.	-	Exp.	=	Net Inc.	Cash Flow
A.	+	=	+	+	NA	+	-	NA	=	+	-OA
B.	NA	=	+	+	-	NA	-	+	=	-	-IA
C.	-	=	NA	+	-	NA	-	+	=	-	NA
D.	NA	=	+	+	-	NA	-	+	=	-	NA

A) Option A
B) Option B
C) Option C
D) Option D

6) Revenue on account amounted to $5,000. Cash collections of accounts receivable amounted to $2,300. Expenses for the period were $2,100. The company paid dividends of $450. Net income for the period was
A) $1,200.
B) $2,900.
C) $2,850.
D) $2,450.

7) The recognition of an expense may be accompanied by which of the following?
A) An increase in liabilities
B) A decrease in liabilities
C) A decrease in revenue
D) An increase in assets

8) Which of the following statements is true in regard to accrual accounting?
A) Revenue is recorded only when cash is received.
B) Expenses are recorded when they are incurred.
C) Revenue is recorded in the period when it is earned.
D) Revenue is recorded in the period when it is earned and expenses are recorded when they are incurred.

9) Recognition of revenue **may** be accompanied by which of the following?
A) A decrease in a liability.
B) An increase in a liability.
C) An increase in an asset.
D) An increase in an asset or a decrease in a liability.

Copyright ©2018 McGraw-Hill

10) Mize Company provided $45,500 of services on account, and collected $38,000 from customers during the year. The company also incurred $37,000 of expenses on account, and paid $32,400 against its payables. As a result of these events,
A) total assets would increase
B) total liabilities would increase
C) total equity would increase
D) all of these answer choices are correct

11) Which of the following events would **not** require an end-of-year adjusting entry?
A) Purchasing supplies for cash
B) Paying for one year's rent on July 1
C) Providing services on account
D) Each of these answer choices would require an end-of-year adjustment

12) The adjusting entry to recognize work completed on unearned revenue involves which of the following?
A) An increase in assets and a decrease in liabilities
B) An increase in liabilities and a decrease in equity
C) A decrease in liabilities and an increase in equity
D) A decrease in assets and a decrease in liabilities

13) Jack's Snow Removal Company received a cash advance of $6,000 on December 1, Year 1 to provide services during the months of December, January, and February. The year-end adjustment on December 31, Year 1, to recognize the partial expiration of the contract will
A) increase assets by $2,000
B) increase equity by $2,000
C) increase liabilities by $2,000
D) increase assets by $2,000 and increase equity by $2,000

14) The following account balances were drawn from the financial statements of Grayson Company:

Cash	$ 8,800	Accounts payable	$ 2,500
Accounts receivable	$ 3,000	Common stock	?
Land	$ 16,000	Retained earnings, Jan. 1	$ 5,400
		Revenue	$ 19,000
		Expenses	$ 14,500

Based on the above information, what is the balance of Common Stock for Grayson Company?
A) $15,400
B) $19,900
C) $900
D) $20,800

Copyright ©2018 McGraw-Hill

15) Prior to closing, Syracuse Company's accounting records showed the following balances:

Retained earnings	$ 16,800
Service revenue	21,750
Interest revenue	1,800
Salaries expense	12,300
Operating expense	3,450
Interest expense	900
Dividends	2,700

After closing, Syracuse's retained earnings balance would be
A) $16,800.
B) $23,700.
C) $21,000.
D) $26,400.

16) Sheldon Company began Year 1 with $1,200 in its supplies account. During the year, the company purchased $3,400 of supplies on account. The company paid $3,000 on accounts payable by year end. At the end of Year 1, Sheldon counted $1,400 of supplies on hand. Sheldon's financial statements for Year 1 would show:
A) $1,600 of supplies; $200 of supplies expense
B) $1,400 of supplies; $2,000 of supplies expense
C) $1,400 of supplies; $3,200 of supplies expense
D) $1,600 of supplies; $3,400 of supplies expense

17) Jason Company paid $7,200 for one year's rent in advance beginning on October 1, Year 1. Jason's Year 1 income statement would report rent expense, and its statement of cash flows would report cash outflow for rent, respectively, of
A) $7,200; $7,200
B) $1,800; $1,800
C) $1,800; $7,200
D) $1,200; $7,200

18) In uncertain circumstances, the conservatism principle guides accountants to:
A) accelerate revenue recognition and delay expense recognition.
B) accelerate expense recognition and delay revenue recognition.
C) recognize expense of prepaid items when payment is made.
D) delay both expense recognition and revenue recognition.

19) Purchasing prepaid rent is classified as a(n):
A) asset source transaction.
B) asset use transaction.
C) asset exchange transaction.
D) claims exchange transaction.

Copyright ©2018 McGraw-Hill

20) Revenue on account amounted to $9,000. Cash collections of accounts receivable amounted to $8,100. Cash paid for expenses was $7,500. The amount of employee salaries accrued at the end of the year was $900. Cash flow from operating activities was
A) $900.
B) $600.
C) $1,500.
D) $8,700.

21) Which of the following accounts would **not** appear on a balance sheet?
A) Service Revenue.
B) Salaries Payable.
C) Unearned Revenue.
D) Neither Service Revenue nor Unearned Revenue would appear on a balance sheet.

22) Warren Enterprises had the following events during Year 1:

The business issued $40,000 of common stock to its stockholders.
The business purchased land for $24,000 cash.
Services were provided to customers for $32,000 cash.
Services were provided to customers for $10,000 on account.
The company borrowed $32,000 from the bank.
Operating expenses of $24,000 were incurred and paid in cash.
Salary expense of $1,600 was accrued.
A dividend of $8,000 was paid to the stockholders of Warren Enterprises.

Assuming the company began operations during Year 1, the amount of retained earnings as of December 31, Year 1 would be:
A) $10,000
B) $8,400
C) $16,400
D) $42,000

23) Which of the following would cause net income on the accrual basis to be different from (either higher or lower than) "cash provided by operating activities" on the statement of cash flows?
A) Purchased land for cash.
B) Purchased supplies for cash.
C) Paid advertising expense.
D) Paid dividends to stockholders.

Copyright ©2018 McGraw-Hill

24) Rushmore Company provided services for $45,000 cash during Year 1. Rushmore incurred $36,000 expenses on account during Year 1, and by the end of the year, $9,000 of that amount had been paid with cash. Assuming that these are the only accounting events that affected Rushmore during Year 1,
A) The amount of net loss shown on the income statement is $9,000.
B) The amount of net income shown on the income statement is $27,000.
C) The amount of net income shown on the income statement is $9,000.
D) The amount of net cash flow from operating activities shown on the statement of cash flows is $18,000.

25) The following accounts and balances were drawn from the records of Carolina Company on December 31, Year 1:

Cash	$ 4,000	Accounts receivable	$ 3,400
Dividends	$ 2,000	Common stock	$ 3,900
Land	$ 3,200	Revenue	$ 3,200
Accounts payable	$ 1,800	Expense	$ 2,200

Total assets on Carolina's December 31, Year 1 balance sheet would amount to:
A) $12,600.
B) $13,800.
C) $7,200.
D) $10,600.

26) The following accounts and balances were drawn from the records of Carolina Company on December 31, Year 1:

Cash	$ 4,000	Accounts receivable	$ 3,400
Dividends	$ 2,000	Common stock	$ 3,900
Land	$ 3,200	Revenue	$ 3,200
Accounts payable	$ 1,800	Expense	$ 2,200

The amount of net income shown on Carolina's Year 1 income statement would amount to:
A) $2,200.
B) $3,200.
C) $1,000.
D) $200.

Copyright ©2018 McGraw-Hill

27) The following accounts and balances were drawn from the records of Carolina Company on December 31, Year 1:

Cash	$ 4,000	Accounts receivable	$ 3,400
Dividends	$ 2,000	Common stock	$ 3,900
Land	$ 3,200	Revenue	$ 3,200
Accounts payable	$ 1,800	Expense	$ 2,200

The amount of Carolina's retained earnings after closing on December 31, Year 1 was:
A) $5,900.
B) $7,200.
C) $3,900.
D) $4,900.

28) Nelson Company experienced the following transactions during Year 1, its first year in operation.

1. Issued $12,000 of common stock to stockholders.
2. Provided $4,600 of services on account.
3. Paid $3,200 cash for operating expenses.
4. Collected $3,800 of cash from accounts receivable.
5. Paid a $200 cash dividend to stockholders.

The amount of net income recognized on Nelson Company's Year 1 income statement is:
A) $1,400.
B) $800.
C) $1,000.
D) $1,200.

29) Nelson Company experienced the following transactions during Year 1, its first year in operation.

1. Issued $12,000 of common stock to stockholders.
2. Provided $4,600 of services on account.
3. Paid $3,200 cash for operating expenses.
4. Collected $3,800 of cash from accounts receivable.
5. Paid a $200 cash dividend to stockholders.

The amount of net cash flow from operating activities shown on Nelson Company's Year 1 statement of cash flows is
A) $400.
B) $600.
C) $1,400.
D) $1,200.

Copyright ©2018 McGraw-Hill

30) Nelson Company experienced the following transactions during Year 1, its first year in operation.

1. Issued $12,000 of common stock to stockholders.
2. Provided $4,600 of services on account.
3. Paid $3,200 cash for operating expenses.
4. Collected $3,800 of cash from accounts receivable.
5. Paid a $200 cash dividend to stockholders.

The total amount of assets shown on Nelson Company's December 31, Year 1 balance sheet is:
A) $12,400.
B) $12,600.
C) $13,400.
D) $13,200.

31) Nelson Company experienced the following transactions during Year 1, its first year in operation.

1. Issued $12,000 of common stock to stockholders.
2. Provided $4,600 of services on account.
3. Paid $3,200 cash for operating expenses.
4. Collected $3,800 of cash from accounts receivable.
5. Paid a $200 cash dividend to stockholders.

The amount of retained earnings appearing on Nelson Company's December 31, Year 1 balance sheet is:
A) $1,200.
B) $1,000.
C) $1,400.
D) $13,200.

Copyright ©2018 McGraw-Hill

32) On December 31, Year 1, Gaskins Co. owed $4,500 in salaries to employees who had worked during December but would be paid in January. If the year-end adjustment is properly recorded on December 31, Year 1, what will be the effect of this accrual on the following items for Gaskins?

	Net Income	Cash Flow from Operating Activities
a.	No effect	No effect
b.	Decrease	No effect
c.	Increase	Decrease
d.	No effect	Decrease

A) Option A
B) Option B
C) Option C
D) Option D

33) Duluth Co. collected a $6,000 cash advance from a customer on November 1, Year 1 for work to be performed over a six-month period beginning on that date. If the year-end adjustment is properly recorded, what will be the effect of the adjusting entry on Duluth's Year 1 financial statements?
A) Increase assets and decrease liabilities
B) Increase assets and increase revenues
C) Decrease liabilities and increase revenues
D) No effect

34) Gomez Company collected $9,000 on September 1, Year 1 from a customer for services to be provided over a one-year period beginning on that date. How much revenue would Gomez Company report related to this contract on its income statement for the year ended December 31, Year 1? How much would it report as cash flows from operating activities for Year 1?
A) $3,000; $3,000
B) $9,000; $9,000
C) $3,000; $9,000
D) $0; $9,000

35) The matching concept refers to the "matching" of:
A) expenses and revenues.
B) expenses and liabilities.
C) assets and equity.
D) assets and liabilities.

36) The matching concept most significantly influences which financial statement?
A) Balance sheet
B) Income statement
C) Statement of changes in stockholders' equity
D) Statement of cash flows

Copyright ©2018 McGraw-Hill

37) Expenses that are matched with the period in which they are incurred are frequently called:
A) market expenses.
B) matching expenses.
C) period costs.
D) working costs.

38) If retained earnings decreased during the year, and no dividends were paid, which of the following must be true?
A) Expenses for the year exceeded revenues
B) The company did not have enough cash to pay its expenses
C) Total equity decreased
D) Liabilities increased during the year

39) Which of the following correctly states the proper order of the accounting cycle?
A) Record transactions, adjust accounts, close temporary accounts, prepare statements.
B) Adjust accounts, record transactions, close temporary accounts, prepare statements.
C) Record transactions, adjust accounts, prepare statements, close temporary accounts.
D) Adjust accounts, prepare statements, record transactions, close temporary accounts.

40) The purpose of the accrual basis of accounting is to:
A) Report revenue when received.
B) Match assets and liabilities in the proper period.
C) Report expenses when cash disbursements are made.
D) Match revenues and expenses in the proper period.

41) Which of the following financial statement elements is closed at the end of an accounting cycle?
A) Dividends
B) Common stock
C) Assets
D) Liabilities

42) Which of the following accounts is **not** closed at the end of an accounting cycle?
A) Revenues
B) Retained earnings
C) Dividends
D) Expenses

43) The balance in a revenue account at the beginning of an accounting period will always be
A) zero.
B) last period's ending balance.
C) higher than the previous periods beginning balance.
D) equal to the amount of retained earnings for the previous period.

Copyright ©2018 McGraw-Hill

44) The accounting principle that guides accountants, when faced with a recognition dilemma, to choose the alternative that produces the lowest net income is referred to as:
A) the matching concept.
B) internal control.
C) conservatism.
D) materiality.

45) Which of the following describes the effects of a claims exchange transaction on a company's financial statements?

	Assets	**=**	**Liab.**	**+**	**Equity**	**Rev.**	**-**	**Exp.**	**=**	**Net Inc.**	**Cash Flow**
A.	NA	=	NA	+	NA	NA	-	NA	=	NA	+OA
B.	+	=	+	+	NA	NA	-	NA	=	NA	+OA
C.	NA	=	+	+	-	NA	-	+	=	-	NA
D.	All of these could represent the effects of a claims exchange transaction.										

A) Option A
B) Option B
C) Option C
D) Option D

46) Which of the following is an asset source transaction?
A) Issued common stock.
B) Paid a cash dividend to stockholders.
C) Received a payment on accounts receivable.
D) Accrued salary expense.

47) Which of the following is an asset use transaction?
A) Purchased machine for cash.
B) Recorded insurance expense at the end of the period.
C) Invested cash in an interest earning account.
D) Accrued salary expense at the end of the period.

48) Which of the following is a claims exchange transaction?
A) Recognized revenue earned on a contract where the cash had been collected at an earlier date.
B) Issued common stock.
C) Invested cash in an interest earning account.
D) Purchased machine for cash.

49) Which of the following is an asset exchange transaction?
A) Issued common stock.
B) Accrued salary expense at the end of the accounting period.
C) Collected cash on accounts receivable.
D) Recognized revenue earned on a contract where the cash had been collected at an earlier date.

Copyright ©2018 McGraw-Hill

50) Earning revenue on account would be classified as a/an?
A) claims exchange transaction.
B) asset use transaction.
C) asset source transaction.
D) asset exchange transaction.

51) Vanguard Company uses accrual accounting. Indicate whether each of the following statements regarding Vanguard's accounting system is true or false.
_____ a) The recognition of accounting events and the realization of cash consequences must occur in different accounting periods.
_____ b) The cash consequence of a transaction sometimes precedes its accounting recognition.
_____ c) Expenses may either be matched to revenues they produce or to periods in which they are incurred.
_____ d) Vanguard may record accrual transactions, but may not record deferral transactions.
_____ e) Vanguard is not permitted to make cash sales.

52) Wheaton Co. performed services for a customer on account. Indicate whether each of the following statements about this transaction is true or false.
_____ a) Assets and equity both increase when the revenue is recognized.
_____ b) This transaction did not affect cash flows.
_____ c) The company recorded an increase in revenue and a decrease in accounts receivable.
_____ d) Recognition of revenue would be delayed until cash was received.
_____ e) This transaction is an example of an asset exchange transaction.

53) Dixon Company collected cash during December of Year 1 from a customer for services to be performed during January of Year 2. Indicate whether each of the following statements about this transaction is true or false.
_____ a) Dixon's Year 2 income statement would not be affected by this transaction.
_____ b) Dixon's Year 1 statement of cash flows would be affected by this transaction.
_____ c) This transaction is an asset exchange transaction.
_____ d) The revenue for the services provided will be recorded in Year 2.
_____ e) The transaction increases Dixon's liabilities.

54) Regarding the relationships of revenues and expenses to assets and liabilities, state whether each of the following statements is true or false.
_____ a) Recording an increase in a revenue account may be associated with a decrease in assets.
_____ b) Recording an increase in a revenue account may be associated with a decrease in liabilities.
_____ c) An increase in Salaries Expense may be accompanied by a decrease in Salaries Payable.
_____ d) Recording a decrease in assets may be associated with an increase in an expense account.
_____ e) A decrease in Supplies will be accompanied by an increase in Supplies Expense.

Copyright ©2018 McGraw-Hill

55) Wyatt Company paid $57,000 in January of Year 2 for salaries that had been earned by employees in December of Year 1. Indicate whether each of the following statements about financial statement effects of the January of Year 2event is true or false.
_____ a) The income statement for Year 2 is not affected because the salaries expense had been recognized at the end of December in Year 1.
_____ b) Cash flows from operating activities decreased on the Year 2 statement of cash flows.
_____ c) Payment of the salaries in Year 2 increased a liability.
_____ d) The Year 2 statement of changes in stockholders' equity would not be affected because the salaries expense had been recognized at the end of December in Year 1.
_____ e) Both assets and equity decreased in Year 2 as a result of this transaction.

56) Indicate whether each of the following statements about the closing process and the accounting cycle is true or false.
_____ a) The closing process transfers certain account balances to retained earnings at the end of the accounting cycle.
_____ b) Only accounts that appear on the income statement are closed at the end of each accounting cycle.
_____ c) The permanent accounts contain information that is cumulative in nature.
_____ d) The retained earnings balance at the end of any given year is equal to that year's net income.

57) Regarding the effects of end-of-period adjustments, state whether each of the following statements is true or false.
_____ a) Recording the usage of supplies involves an increase in liabilities and a decrease in equity.
_____ b) The accrual of salaries is considered a claims exchange transaction.
_____ c) Recording services performed on a prepaid contract involves a decrease in liabilities and an increase in assets.
_____ d) End-of-period adjustments often affect cash flows.
_____ e) Failure to record accrued salaries at the end of the year will cause reported net income to be higher than it should have been.

58) Indicate whether each of the following statements regarding the four types of accounting events is true or false.
_____ a) Asset exchange transactions involve an increase in one asset and a decrease in another asset.
_____ b) An asset source transaction involves an increase in assets and an increase in a corresponding claims account.
_____ c) An asset use transaction cannot result in an increase in equity.
_____ d) Asset exchange transactions cannot affect cash flows.
_____ e) Some claims exchange transactions involve an increase in a liability account and a decrease in an equity account.

59) The term "recognition" means to report an economic event in the financial statements.

60) Companies that use accrual accounting recognize revenues and expenses at the time that cash is paid or received.

Copyright ©2018 McGraw-Hill

61) The term "accrual" describes an earnings event that is recognized before cash is paid or received.

62) A company may recognize a revenue or expense without a corresponding cash collection or payment in the same accounting period.

63) A payment to an employee in settlement of salaries payable decreases an asset and decreases equity.

64) An increase in an expense may be accompanied by a decrease in a liability.

65) Revenues and expenses are temporary accounts.

66) In the closing process, the amounts in temporary accounts are moved to net income, a permanent account.

67) Accounts that are closed include expenses, dividends, and unearned revenues.

68) After closing, all income statement accounts have non-zero balances.

69) Two of the steps in the accounting cycle are adjusting the accounts and closing the accounts.

70) Accrual-basis accounting often fails to match expenses with revenues.

71) The matching concept leads accountants to select the recognition alternative that produces the lowest amount of net income.

72) Adjusting entries never affect a business's cash account.

73) Asset use transactions always involve the payment of cash.

74) Providing services to customers on account is an asset exchange transaction.

75) An adjusting entry that decreases unearned revenue and increases service revenue is a claims exchange transaction.

76) Sometimes the recognition of revenue is accompanied by an increase in liabilities.

77) The collection of an account receivable is a claims exchange transaction.

Copyright ©2018 McGraw-Hill

***Survey of Accounting, 5e* (Edmonds)**
Chapter 2 Accounting for Accruals and Deferrals

1) Bledsoe Company received $17,000 cash from the issue of stock on January 1, Year 1. During Year 1, Bledsoe earned $8,500 of revenue on account. The company collected $6,000 cash from accounts receivable and paid $5,400 cash for operating expenses. Based on this information alone, during Year 1,
A) Total assets increased by $20,100.
B) Total assets increased by $600.
C) Total assets increased by $26,100.
D) Total assets did not change.

Answer: A
Explanation: $17,000 (cash) + $8,500 (accounts receivable) + $6,000 (cash) − $6,000 (accounts receivable) − $5,400 (cash) = $20,100 increase
Difficulty: 3 Hard
Topic: Accounting for Receivables
Learning Objective: 02-01 Show how receivables affect financial statements.
Bloom's: Analyze
AACSB: Analytical Thinking
AICPA: BB Critical Thinking; FN Measurement

2) Addison Company experienced an accounting event that affected its financial statements as indicated below:

Assets	=	Liab.	+	Equity	Rev.	−	Exp.	=	Net Inc.	Cash Flow
+		NA		+	+		NA		+	NA

Which of the following accounting events could have caused these effects on Addison's statements?
A) Issued common stock.
B) Earned revenue on account.
C) Earned cash revenue.
D) Collected cash from accounts receivable.

Answer: B
Explanation: Earning revenue on account increases assets (accounts receivable) and increases revenue, which increases net income and equity (retained earnings). It does not affect cash flows.
Difficulty: 2 Medium
Topic: Accounting for Receivables
Learning Objective: 02-01 Show how receivables affect financial statements.
Bloom's: Analyze
AACSB: Analytical Thinking
AICPA: BB Critical Thinking; FN Measurement

Copyright ©2018 McGraw-Hill

3) Which of the following choices accurately reflects how the recording of accrued salary expense affects the financial statements of a business?

	Assets	=	Liab.	+	Equity	Rev.	-	Exp.	=	Net Inc.	Cash Flow
A.	NA	=	+	+	-	-	-	+	=	NA	NA
B.	NA	=	NA	+	+/-	NA	-	NA	=	NA	NA
C.	NA	=	+	+	-	NA	-	+	=	-	NA
D.	+	=	+	+	NA	NA	-	+	=	-	-OA

A) Option A
B) Option B
C) Option C
D) Option D

Answer: C
Explanation: Accruing salary expense increases liabilities (salaries payable) and increases expenses, which decreases net income and equity (retained earnings). It does not affect cash flows.
Difficulty: 2 Medium
Topic: Accounting for Payables (Adjusting the Accounts)
Learning Objective: 02-02 Show how payables affect financial statements.
Bloom's: Analyze
AACSB: Analytical Thinking
AICPA: BB Critical Thinking; FN Measurement

4) Which of the following transactions does **not** involve an accrual?
A) Recording interest earned that will be received in the next period.
B) Recording operating expense incurred but not yet paid.
C) Recording salary expense incurred but not yet paid.
D) Recording the pre-payment of two years' worth of insurance.

Answer: D
Explanation: Recording the pre-payment of two years' worth of insurance involves a deferral, not an accrual. A deferral occurs when cash changes hands before revenue or expense is recognized. All other choices are accruals: interest receivable, accounts payable, and salaries payable.
Difficulty: 3 Hard
Topic: Accounting for Prepaid Items
Learning Objective: 02-06 Show how accounting for prepaid items affects financial statements.
Bloom's: Understand
AACSB: Reflective Thinking
AICPA: BB Critical Thinking; FN Measurement

Copyright ©2018 McGraw-Hill

5) Jantzen Company recorded employee salaries earned but not yet paid. Which of the following represents the effect of this transaction on the financial statements?

	Assets	=	Liab.	+	Equity	Rev.	-	Exp.	=	Net Inc.	Cash Flow
A.	+	=	+	+	NA	+	-	NA	=	+	-OA
B.	NA	=	+	+	-	NA	-	+	=	-	-IA
C.	-	=	NA	+	-	NA	-	+	=	-	NA
D.	NA	=	+	+	-	NA	-	+	=	-	NA

A) Option A
B) Option B
C) Option C
D) Option D

Answer: D
Explanation: Accruing salaries expense increases liabilities (salaries payable) and increases expenses, which decreases net income and equity (retained earnings). It does not affect cash flows.
Difficulty: 2 Medium
Topic: Accounting for Payables (Adjusting the Accounts)
Learning Objective: 02-02 Show how payables affect financial statements.
Bloom's: Analyze
AACSB: Analytical Thinking
AICPA: BB Critical Thinking; FN Measurement

6) Revenue on account amounted to $5,000. Cash collections of accounts receivable amounted to $2,300. Expenses for the period were $2,100. The company paid dividends of $450. Net income for the period was
A) $1,200.
B) $2,900.
C) $2,850.
D) $2,450.

Answer: B
Explanation: Revenue $5,000 − Expenses $2,100 = $2,900 Net Income
Difficulty: 2 Medium
Topic: Accounting for Receivables
Learning Objective: 02-01 Show how receivables affect financial statements.
Bloom's: Apply
AACSB: Knowledge Application
AICPA: BB Critical Thinking; FN Measurement

Copyright ©2018 McGraw-Hill

7) The recognition of an expense may be accompanied by which of the following?
A) An increase in liabilities
B) A decrease in liabilities
C) A decrease in revenue
D) An increase in assets

Answer: A
Explanation: Recognizing an expense may be accompanied by an increase in liabilities (i.e. accounts payable, salaries payable) or a decrease in assets (i.e. cash, prepaid rent or insurance).
Difficulty: 2 Medium
Topic: Accounting for Payables (Adjusting the Accounts)
Learning Objective: 02-02 Show how payables affect financial statements.
Bloom's: Understand
AACSB: Reflective Thinking
AICPA: BB Critical Thinking; FN Measurement

8) Which of the following statements is true in regard to accrual accounting?
A) Revenue is recorded only when cash is received.
B) Expenses are recorded when they are incurred.
C) Revenue is recorded in the period when it is earned.
D) Revenue is recorded in the period when it is earned and expenses are recorded when they are incurred.

Answer: D
Explanation: Revenue is recognized when earned and expenses are recognized when incurred, regardless of when cash is exchanged.
Difficulty: 2 Medium
Topic: Steps in an Accounting Cycle
Learning Objective: 02-04 Identify the steps in the accounting cycle.
Bloom's: Remember
AACSB: Reflective Thinking
AICPA: BB Critical Thinking; FN Measurement

9) Recognition of revenue **may** be accompanied by which of the following?
A) A decrease in a liability.
B) An increase in a liability.
C) An increase in an asset.
D) An increase in an asset or a decrease in a liability.

Answer: D
Explanation: Recognizing revenue may be accompanied by either an increase in assets (cash or accounts receivable) or a decrease in liabilities (unearned revenue).
Difficulty: 2 Medium
Topic: Accounting for Receivables; Accounting for Unearned Revenue
Learning Objective: 02-01 Show how receivables affect financial statements.; 02-07 Show how accounting for unearned revenues affects financial statements.
Bloom's: Understand
AACSB: Reflective Thinking
AICPA: BB Critical Thinking; FN Measurement

Copyright ©2018 McGraw-Hill

10) Mize Company provided $45,500 of services on account, and collected $38,000 from customers during the year. The company also incurred $37,000 of expenses on account, and paid $32,400 against its payables. As a result of these events,
A) total assets would increase
B) total liabilities would increase
C) total equity would increase
D) all of these answer choices are correct

Answer: D
Explanation: $45,500 − $32,400 = $13,100 increase in assets; $37,000 − $32,400 = $4,600 increase in liabilities; $45,500 − $37,000 = $8,500 increase in equity
Difficulty: 3 Hard
Topic: Accounting for Receivables; Accounting for Payables (Adjusting the Accounts)
Learning Objective: 02-01 Show how receivables affect financial statements.; 02-02 Show how payables affect financial statements.
Bloom's: Analyze
AACSB: Analytical Thinking
AICPA: BB Critical Thinking; FN Measurement

11) Which of the following events would **not** require an end-of-year adjusting entry?
A) Purchasing supplies for cash
B) Paying for one year's rent on July 1
C) Providing services on account
D) Each of these answer choices would require an end-of-year adjustment

Answer: C
Explanation: Providing services on account does not require an end-of-year adjusting entry. Accounts receivable is increased when services are provided on account and is decreased when payment is received from customers. Supplies and prepaid rent both require end-of-year adjusting entries to recognize expense.
Difficulty: 3 Hard
Topic: Accounting for Receivables; Accounting for Prepaid Items; Accounting for supplies
Learning Objective: 02-01 Show how receivables affect financial statements.; 02-06 Show how accounting for prepaid items affects financial statements.; 02-05 Show how accounting for supplies affects financial statements.
Bloom's: Understand
AACSB: Reflective Thinking
AICPA: BB Critical Thinking; FN Measurement

Copyright ©2018 McGraw-Hill

12) The adjusting entry to recognize work completed on unearned revenue involves which of the following?
A) An increase in assets and a decrease in liabilities
B) An increase in liabilities and a decrease in equity
C) A decrease in liabilities and an increase in equity
D) A decrease in assets and a decrease in liabilities

Answer: C
Explanation: Recognizing work completed on unearned revenue involves a decrease in liabilities (unearned revenue) and an increase in equity (retained earnings as a result of revenue).
Difficulty: 2 Medium
Topic: Accounting for Unearned Revenue
Learning Objective: 02-07 Show how accounting for unearned revenues affects financial statements.
Bloom's: Analyze
AACSB: Analytical Thinking
AICPA: BB Critical Thinking; FN Measurement

13) Jack's Snow Removal Company received a cash advance of $6,000 on December 1, Year 1 to provide services during the months of December, January, and February. The year-end adjustment on December 31, Year 1, to recognize the partial expiration of the contract will
A) increase assets by $2,000
B) increase equity by $2,000
C) increase liabilities by $2,000
D) increase assets by $2,000 and increase equity by $2,000

Answer: B
Explanation: The year-end adjustment to recognize one month's work on the three-month contract results in a $2,000 decrease in liabilities (unearned revenue) and an increase in equity (retained earnings due to recognizing revenue).
Difficulty: 2 Medium
Topic: Accounting for Unearned Revenue
Learning Objective: 02-07 Show how accounting for unearned revenues affects financial statements.
Bloom's: Apply
AACSB: Knowledge Application
AICPA: BB Critical Thinking; FN Measurement

Copyright ©2018 McGraw-Hill

14) The following account balances were drawn from the financial statements of Grayson Company:

Cash	$ 8,800	Accounts payable	$ 2,500
Accounts receivable	$ 3,000	Common stock	?
Land	$ 16,000	Retained earnings, Jan. 1	$ 5,400
		Revenue	$ 19,000
		Expenses	$ 14,500

Based on the above information, what is the balance of Common Stock for Grayson Company?
A) $15,400
B) $19,900
C) $900
D) $20,800

Answer: A
Explanation: Assets ($8,800 + $3,000 + $16,000) = Liabilities ($2,500) + Equity; Equity = $25,300; $25,300 = Common Stock + Retained Earnings ($5,400 + $19,000 − $14,500); $25,300 = Common Stock + $9,900; Common Stock = $15,400
Difficulty: 2 Medium
Topic: Preparing Financial Statements
Learning Objective: 02-03 Prepare financial statements that include accruals.
Bloom's: Apply
AACSB: Knowledge Application
AICPA: BB Critical Thinking; FN Measurement

Copyright ©2018 McGraw-Hill

15) Prior to closing, Syracuse Company's accounting records showed the following balances:

Retained earnings	$ 16,800
Service revenue	21,750
Interest revenue	1,800
Salaries expense	12,300
Operating expense	3,450
Interest expense	900
Dividends	2,700

After closing, Syracuse's retained earnings balance would be
A) $16,800.
B) $23,700.
C) $21,000.
D) $26,400.

Answer: C
Explanation: $16,800 + $21,750 + $1,800 − $12,300 − $3,450 − $900 − $2,700 = $21,000
Difficulty: 2 Medium
Topic: Steps in an Accounting Cycle
Learning Objective: 02-04 Identify the steps in the accounting cycle.
Bloom's: Apply
AACSB: Knowledge Application
AICPA: BB Critical Thinking; FN Measurement

16) Sheldon Company began Year 1 with $1,200 in its supplies account. During the year, the company purchased $3,400 of supplies on account. The company paid $3,000 on accounts payable by year end. At the end of Year 1, Sheldon counted $1,400 of supplies on hand. Sheldon's financial statements for Year 1 would show:
A) $1,600 of supplies; $200 of supplies expense
B) $1,400 of supplies; $2,000 of supplies expense
C) $1,400 of supplies; $3,200 of supplies expense
D) $1,600 of supplies; $3,400 of supplies expense

Answer: C
Explanation: $1,400 of supplies on hand is the supplies asset on the balance sheet; $1,200 beginning balance + $3,400 of supplies purchased − $1,400 ending balance = $3,200 supplies expense
Difficulty: 2 Medium
Topic: Accounting for supplies
Learning Objective: 02-05 Show how accounting for supplies affects financial statements.
Bloom's: Apply
AACSB: Knowledge Application
AICPA: BB Critical Thinking; FN Measurement

Copyright ©2018 McGraw-Hill

17) Jason Company paid $7,200 for one year's rent in advance beginning on October 1, Year 1. Jason's Year 1 income statement would report rent expense, and its statement of cash flows would report cash outflow for rent, respectively, of
A) $7,200; $7,200
B) $1,800; $1,800
C) $1,800; $7,200
D) $1,200; $7,200

Answer: C
Explanation: $7,200 × 3/12 = $1,800 rent expense; $7,200 payment on 10/1/15 is a cash outflow for rent
Difficulty: 2 Medium
Topic: Accounting for Prepaid Items
Learning Objective: 02-06 Show how accounting for prepaid items affects financial statements.
Bloom's: Apply
AACSB: Knowledge Application
AICPA: BB Critical Thinking; FN Measurement

18) In uncertain circumstances, the conservatism principle guides accountants to:
A) accelerate revenue recognition and delay expense recognition.
B) accelerate expense recognition and delay revenue recognition.
C) recognize expense of prepaid items when payment is made.
D) delay both expense recognition and revenue recognition.

Answer: B
Explanation: The conservatism principle guides accountants to choose the alternative that produces the lowest net income, which causes them to accelerate expense recognition and delay revenue recognition.
Difficulty: 2 Medium
Topic: Preparing Financial Statements
Learning Objective: 02-04 Identify the steps in the accounting cycle.
Bloom's: Understand
AACSB: Reflective Thinking
AICPA: BB Critical Thinking; FN Decision Making

Copyright ©2018 McGraw-Hill

19) Purchasing prepaid rent is classified as a(n):
A) asset source transaction.
B) asset use transaction.
C) asset exchange transaction.
D) claims exchange transaction.

Answer: C
Explanation: Purchasing prepaid rent increases one asset (prepaid rent) and decreases another asset (cash). Therefore, it is classified as an asset exchange transaction.
Difficulty: 1 Easy
Topic: Accounting for Prepaid Items; Transaction Classification
Learning Objective: 02-06 Show how accounting for prepaid items affects financial statements.; 02-09 Classify accounting events into one of four categories.
Bloom's: Understand
AACSB: Reflective Thinking
AICPA: BB Critical Thinking; FN Measurement

20) Revenue on account amounted to $9,000. Cash collections of accounts receivable amounted to $8,100. Cash paid for expenses was $7,500. The amount of employee salaries accrued at the end of the year was $900. Cash flow from operating activities was
A) $900.
B) $600.
C) $1,500.
D) $8,700.

Answer: B
Explanation: $8,100 collected from customers − $7,500 paid for expenses = $600. Revenue earned on account and accrued salaries are not cash flow activities.
Difficulty: 2 Medium
Topic: Accounting for Receivables; Accounting for Payables (Adjusting the Accounts)
Learning Objective: 02-01 Show how receivables affect financial statements.; 02-02 Show how payables affect financial statements.
Bloom's: Apply
AACSB: Knowledge Application
AICPA: BB Critical Thinking; FN Measurement

21) Which of the following accounts would **not** appear on a balance sheet?
A) Service Revenue.
B) Salaries Payable.
C) Unearned Revenue.
D) Neither Service Revenue nor Unearned Revenue would appear on a balance sheet.

Answer: A
Explanation: Service revenue is an income statement account. Unearned revenue, despite having the word "revenue" in its title, is a liability account that appears on the balance sheet.
Difficulty: 2 Medium
Topic: Preparing Financial Statements; Balance Sheet
Learning Objective: 02-03 Prepare financial statements that include accruals.
Bloom's: Understand
AACSB: Reflective Thinking
AICPA: BB Critical Thinking; FN Measurement

Copyright ©2018 McGraw-Hill

22) Warren Enterprises had the following events during Year 1:

The business issued $40,000 of common stock to its stockholders.
The business purchased land for $24,000 cash.
Services were provided to customers for $32,000 cash.
Services were provided to customers for $10,000 on account.
The company borrowed $32,000 from the bank.
Operating expenses of $24,000 were incurred and paid in cash.
Salary expense of $1,600 was accrued.
A dividend of $8,000 was paid to the stockholders of Warren Enterprises.

Assuming the company began operations during Year 1, the amount of retained earnings as of December 31, Year 1 would be:
A) $10,000
B) $8,400
C) $16,400
D) $42,000

Answer: B
Explanation: $0 beginning balance + $42,000 revenue − $25,600 expenses − $8,000 dividends = $8,400 ending balance
Difficulty: 2 Medium
Topic: Accounting for Receivables; Accounting for Payables (Adjusting the Accounts); Preparing Financial Statements
Learning Objective: 02-01 Show how receivables affect financial statements.; 02-02 Show how payables affect financial statements.; 02-03 Prepare financial statements that include accruals.
Bloom's: Apply
AACSB: Knowledge Application
AICPA: BB Critical Thinking; FN Measurement

23) Which of the following would cause net income on the accrual basis to be different from (either higher or lower than) "cash provided by operating activities" on the statement of cash flows?
A) Purchased land for cash.
B) Purchased supplies for cash.
C) Paid advertising expense.
D) Paid dividends to stockholders.

Answer: B
Explanation: Purchasing supplies for cash is a cash outflow for operating activities, but will not be reported as an expense until the supplies are used. Purchasing land is a cash flow for investing activities and does not affect net income. Paying utilities expense causes equal decreases in net income and cash flows from operating activities.
Difficulty: 2 Medium
Topic: Accounting for supplies
Learning Objective: 02-05 Show how accounting for supplies affects financial statements.
Bloom's: Analyze
AACSB: Analytical Thinking
AICPA: BB Critical Thinking; FN Measurement

Copyright ©2018 McGraw-Hill

24) Rushmore Company provided services for $45,000 cash during Year 1. Rushmore incurred $36,000 expenses on account during Year 1, and by the end of the year, $9,000 of that amount had been paid with cash. Assuming that these are the only accounting events that affected Rushmore during Year 1,
A) The amount of net loss shown on the income statement is $9,000.
B) The amount of net income shown on the income statement is $27,000.
C) The amount of net income shown on the income statement is $9,000.
D) The amount of net cash flow from operating activities shown on the statement of cash flows is $18,000.

Answer: C
Explanation: $45,000 revenue − $36,000 expenses = $9,000 net income
Difficulty: 2 Medium
Topic: Accounting for Payables (Adjusting the Accounts); Preparing Financial Statements
Learning Objective: 02-02 Show how payables affect financial statements.; 02-03 Prepare financial statements that include accruals.
Bloom's: Apply
AACSB: Knowledge Application
AICPA: BB Critical Thinking; FN Measurement

25) The following accounts and balances were drawn from the records of Carolina Company on December 31, Year 1:

Cash	$ 4,000	Accounts receivable	$ 3,400
Dividends	$ 2,000	Common stock	$ 3,900
Land	$ 3,200	Revenue	$ 3,200
Accounts payable	$ 1,800	Expense	$ 2,200

Total assets on Carolina's December 31, Year 1 balance sheet would amount to:
A) $12,600.
B) $13,800.
C) $7,200.
D) $10,600.

Answer: D
Explanation: $4,000 cash + $3,200 land + $3,400 accounts receivable = $10,600 total assets
Difficulty: 1 Easy
Topic: Preparing Financial Statements
Learning Objective: 02-03 Prepare financial statements that include accruals.
Bloom's: Apply
AACSB: Knowledge Application
AICPA: BB Critical Thinking; FN Measurement

Copyright ©2018 McGraw-Hill

26) The following accounts and balances were drawn from the records of Carolina Company on December 31, Year 1:

Cash	$ 4,000	Accounts receivable	$ 3,400
Dividends	$ 2,000	Common stock	$ 3,900
Land	$ 3,200	Revenue	$ 3,200
Accounts payable	$ 1,800	Expense	$ 2,200

The amount of net income shown on Carolina's Year 1 income statement would amount to:
A) $2,200.
B) $3,200.
C) $1,000.
D) $200.

Answer: C
Explanation: $3,200 revenue − $2,200 expenses = $1,000
Difficulty: 1 Easy
Topic: Preparing Financial Statements
Learning Objective: 02-03 Prepare financial statements that include accruals.
Bloom's: Apply
AACSB: Knowledge Application
AICPA: BB Critical Thinking; FN Measurement

27) The following accounts and balances were drawn from the records of Carolina Company on December 31, Year 1:

Cash	$ 4,000	Accounts receivable	$ 3,400
Dividends	$ 2,000	Common stock	$ 3,900
Land	$ 3,200	Revenue	$ 3,200
Accounts payable	$ 1,800	Expense	$ 2,200

The amount of Carolina's retained earnings after closing on December 31, Year 1 was:
A) $5,900.
B) $7,200.
C) $3,900.
D) $4,900.

Answer: D
Explanation: Assets ($4,000 + $3,400 + $3,200) = Liabilities ($1,800) + Common Stock ($3,900) + Retained Earnings
Retained Earnings = $10,600 − $5,700 = $4,900
Difficulty: 2 Medium
Topic: Steps in an Accounting Cycle
Learning Objective: 02-04 Identify the steps in the accounting cycle.
Bloom's: Apply
AACSB: Knowledge Application
AICPA: BB Critical Thinking; FN Measurement

Copyright ©2018 McGraw-Hill

28) Nelson Company experienced the following transactions during Year 1, its first year in operation.

1. Issued $12,000 of common stock to stockholders.
2. Provided $4,600 of services on account.
3. Paid $3,200 cash for operating expenses.
4. Collected $3,800 of cash from accounts receivable.
5. Paid a $200 cash dividend to stockholders.

The amount of net income recognized on Nelson Company's Year 1 income statement is:
A) $1,400.
B) $800.
C) $1,000.
D) $1,200.

Answer: A
Explanation: $4,600 revenue − $3,200 expenses = $1,400 net income
Difficulty: 2 Medium
Topic: Preparing Financial Statements
Learning Objective: 02-03 Prepare financial statements that include accruals.
Bloom's: Apply
AACSB: Knowledge Application
AICPA: BB Critical Thinking; FN Measurement

29) Nelson Company experienced the following transactions during Year 1, its first year in operation.

1. Issued $12,000 of common stock to stockholders.
2. Provided $4,600 of services on account.
3. Paid $3,200 cash for operating expenses.
4. Collected $3,800 of cash from accounts receivable.
5. Paid a $200 cash dividend to stockholders.

The amount of net cash flow from operating activities shown on Nelson Company's Year 1 statement of cash flows is
A) $400.
B) $600.
C) $1,400.
D) $1,200.

Answer: B
Explanation: $3,800 cash collected from revenue − $3,200 cash paid for expenses = $600 cash flow from operating activities
Difficulty: 2 Medium
Topic: Preparing Financial Statements
Learning Objective: 02-03 Prepare financial statements that include accruals.
Bloom's: Apply
AACSB: Knowledge Application
AICPA: BB Critical Thinking; FN Measurement

Copyright ©2018 McGraw-Hill

30) Nelson Company experienced the following transactions during Year 1, its first year in operation.

1. Issued $12,000 of common stock to stockholders.
2. Provided $4,600 of services on account.
3. Paid $3,200 cash for operating expenses.
4. Collected $3,800 of cash from accounts receivable.
5. Paid a $200 cash dividend to stockholders.

The total amount of assets shown on Nelson Company's December 31, Year 1 balance sheet is:
A) $12,400.
B) $12,600.
C) $13,400.
D) $13,200.

Answer: D
Explanation: Cash ($12,000 + $3,800 − $3,200 − $200) + Accounts Receivable ($4,600 − $3,800) = $13,200 Total Assets
Difficulty: 2 Medium
Topic: Preparing Financial Statements
Learning Objective: 02-03 Prepare financial statements that include accruals.
Bloom's: Apply
AACSB: Knowledge Application
AICPA: BB Critical Thinking; FN Measurement

Copyright ©2018 McGraw-Hill

31) Nelson Company experienced the following transactions during Year 1, its first year in operation.

1. Issued $12,000 of common stock to stockholders.
2. Provided $4,600 of services on account.
3. Paid $3,200 cash for operating expenses.
4. Collected $3,800 of cash from accounts receivable.
5. Paid a $200 cash dividend to stockholders.

The amount of retained earnings appearing on Nelson Company's December 31, Year 1 balance sheet is:
A) $1,200.
B) $1,000.
C) $1,400.
D) $13,200.

Answer: A
Explanation: $13,200 Assets − $12,000 Common Stock = $1,200 Retained Earnings or $1,400 Net income − $200 Dividends = $1,200 Retained Earnings
Difficulty: 2 Medium
Topic: Preparing Financial Statements
Learning Objective: 02-03 Prepare financial statements that include accruals.
Bloom's: Apply
AACSB: Knowledge Application
AICPA: BB Critical Thinking; FN Measurement

Copyright ©2018 McGraw-Hill

32) On December 31, Year 1, Gaskins Co. owed $4,500 in salaries to employees who had worked during December but would be paid in January. If the year-end adjustment is properly recorded on December 31, Year 1, what will be the effect of this accrual on the following items for Gaskins?

	Net Income	Cash Flow from Operating Activities
a.	No effect	No effect
b.	Decrease	No effect
c.	Increase	Decrease
d.	No effect	Decrease

A) Option A
B) Option B
C) Option C
D) Option D

Answer: B
Explanation: Recording the adjusting entry will increase salaries expense, which will reduce net income and it will increase salaries payable, a liability. It will not affect cash flows.
Difficulty: 2 Medium
Topic: Accounting for Payables (Adjusting the Accounts)
Learning Objective: 02-02 Show how payables affect financial statements.
Bloom's: Analyze
AACSB: Analytical Thinking
AICPA: BB Critical Thinking; FN Measurement

33) Duluth Co. collected a $6,000 cash advance from a customer on November 1, Year 1 for work to be performed over a six-month period beginning on that date. If the year-end adjustment is properly recorded, what will be the effect of the adjusting entry on Duluth's Year 1 financial statements?
A) Increase assets and decrease liabilities
B) Increase assets and increase revenues
C) Decrease liabilities and increase revenues
D) No effect

Answer: C
Explanation: The adjusting entry to recognize revenue earned on the contract will increase revenues and decrease liabilities (unearned revenue).
Difficulty: 2 Medium
Topic: Accounting for Unearned Revenue
Learning Objective: 02-07 Show how accounting for unearned revenues affects financial statements.
Bloom's: Analyze
AACSB: Analytical Thinking
AICPA: BB Critical Thinking; FN Measurement

Copyright ©2018 McGraw-Hill

34) Gomez Company collected $9,000 on September 1, Year 1 from a customer for services to be provided over a one-year period beginning on that date. How much revenue would Gomez Company report related to this contract on its income statement for the year ended December 31, Year 1? How much would it report as cash flows from operating activities for Year 1?
A) $3,000; $3,000
B) $9,000; $9,000
C) $3,000; $9,000
D) $0; $9,000

Answer: C
Explanation: Gomez will recognize revenue earned for the 4 months between September 1 and December 31 ($9,000 × 4/12 = $3,000). However, the company will recognize the entire $9,000 received as a cash inflow for operating activities in Year 1.
Difficulty: 2 Medium
Topic: Accounting for Unearned Revenue
Learning Objective: 02-07 Show how accounting for unearned revenues affects financial statements.
Bloom's: Analyze
AACSB: Analytical Thinking
AICPA: BB Critical Thinking; FN Measurement

35) The matching concept refers to the "matching" of:
A) expenses and revenues.
B) expenses and liabilities.
C) assets and equity.
D) assets and liabilities.

Answer: A
Explanation: The matching concept refers to the matching of expenses to the revenues that those expenses produce.
Difficulty: 1 Easy
Topic: Steps in an Accounting Cycle
Learning Objective: 02-04 Identify the steps in the accounting cycle.
Bloom's: Remember
AACSB: Reflective Thinking
AICPA: BB Critical Thinking; FN Measurement

Copyright ©2018 McGraw-Hill

36) The matching concept most significantly influences which financial statement?
A) Balance sheet
B) Income statement
C) Statement of changes in stockholders' equity
D) Statement of cash flows

Answer: B
Explanation: The matching process matches expenses to the revenues that they produce. Revenues and expenses are reported on the income statement.
Difficulty: 2 Medium
Topic: Steps in an Accounting Cycle
Learning Objective: 02-04 Identify the steps in the accounting cycle.
Bloom's: Understand
AACSB: Reflective Thinking
AICPA: BB Critical Thinking; FN Measurement

37) Expenses that are matched with the period in which they are incurred are frequently called:
A) market expenses.
B) matching expenses.
C) period costs.
D) working costs.

Answer: C
Explanation: When the connection between and expense and the corresponding revenue is vague, accountants commonly match the expense with the period in which it is incurred. Those expenses are called period costs.
Difficulty: 1 Easy
Topic: Steps in an Accounting Cycle
Learning Objective: 02-04 Identify the steps in the accounting cycle.
Bloom's: Remember
AACSB: Reflective Thinking
AICPA: BB Critical Thinking; FN Measurement

38) If retained earnings decreased during the year, and no dividends were paid, which of the following must be true?
A) Expenses for the year exceeded revenues
B) The company did not have enough cash to pay its expenses
C) Total equity decreased
D) Liabilities increased during the year

Answer: A
Explanation: If retained earnings decreased and no dividends were paid, the company must have reported a net loss. A net loss would have been the result if expenses for the year exceeded revenues.
Difficulty: 2 Medium
Topic: Preparing Financial Statements
Learning Objective: 02-03 Prepare financial statements that include accruals.
Bloom's: Analyze
AACSB: Analytical Thinking
AICPA: BB Critical Thinking; FN Measurement

Copyright ©2018 McGraw-Hill

39) Which of the following correctly states the proper order of the accounting cycle?
A) Record transactions, adjust accounts, close temporary accounts, prepare statements.
B) Adjust accounts, record transactions, close temporary accounts, prepare statements.
C) Record transactions, adjust accounts, prepare statements, close temporary accounts.
D) Adjust accounts, prepare statements, record transactions, close temporary accounts.

Answer: C
Explanation: In the accounting cycle, a company records transactions throughout the accounting period, then adjusted accounts at the end of the period. Next, the company prepares financial statements, and finally, it closes temporary accounts in order to begin the next accounting period. If accounts were closed prior to preparing statements, the income statement accounts would have zero balances on the income statement.
Difficulty: 2 Medium
Topic: The Accounting Cycle
Learning Objective: 02-04 Identify the steps in the accounting cycle.
Bloom's: Remember
AACSB: Reflective Thinking
AICPA: BB Critical Thinking; FN Measurement

40) The purpose of the accrual basis of accounting is to:
A) Report revenue when received.
B) Match assets and liabilities in the proper period.
C) Report expenses when cash disbursements are made.
D) Match revenues and expenses in the proper period.

Answer: D
Explanation: The accrual basis of accounting allows a company to recognize expenses in the same accounting period as the revenues those expenses produce.
Difficulty: 2 Medium
Topic: Steps in an Accounting Cycle
Learning Objective: 02-04 Identify the steps in the accounting cycle.
Bloom's: Understand
AACSB: Reflective Thinking
AICPA: BB Critical Thinking; FN Measurement

Copyright ©2018 McGraw-Hill

41) Which of the following financial statement elements is closed at the end of an accounting cycle?
A) Dividends
B) Common stock
C) Assets
D) Liabilities

Answer: A
Explanation: Revenues, expenses and dividends are closed to retained earnings at the end of an accounting cycle.
Difficulty: 1 Easy
Topic: Steps in an Accounting Cycle
Learning Objective: 02-04 Identify the steps in the accounting cycle.
Bloom's: Remember
AACSB: Reflective Thinking
AICPA: BB Critical Thinking; FN Measurement

42) Which of the following accounts is **not** closed at the end of an accounting cycle?
A) Revenues
B) Retained earnings
C) Dividends
D) Expenses

Answer: B
Explanation: Revenues, expenses and dividends are closed to retained earnings at the end of an accounting cycle. Retained earnings is a permanent account that is reported on the balance sheet.
Difficulty: 2 Medium
Topic: Steps in an Accounting Cycle
Learning Objective: 02-04 Identify the steps in the accounting cycle.
Bloom's: Remember
AACSB: Reflective Thinking
AICPA: BB Critical Thinking; FN Measurement

43) The balance in a revenue account at the beginning of an accounting period will always be
A) zero.
B) last period's ending balance.
C) higher than the previous periods beginning balance.
D) equal to the amount of retained earnings for the previous period.

Answer: A
Explanation: The closing process at the end of an accounting period closes all temporary accounts, including revenue, to zero to start off the next accounting period.
Difficulty: 2 Medium
Topic: Steps in an Accounting Cycle
Learning Objective: 02-04 Identify the steps in the accounting cycle.
Bloom's: Remember
AACSB: Reflective Thinking
AICPA: BB Critical Thinking; FN Measurement

Copyright ©2018 McGraw-Hill

44) The accounting principle that guides accountants, when faced with a recognition dilemma, to choose the alternative that produces the lowest net income is referred to as:
A) the matching concept.
B) internal control.
C) conservatism.
D) materiality.

Answer: C
Explanation: Conservatism guides companies to choose accounting methods that avoid overstating revenues and understating expenses.
Difficulty: 2 Medium
Topic: Preparing Financial Statements
Learning Objective: 02-04 Identify the steps in the accounting cycle.
Bloom's: Remember
AACSB: Reflective Thinking
AICPA: BB Critical Thinking; FN Measurement

45) Which of the following describes the effects of a claims exchange transaction on a company's financial statements?

	Assets	**=**	**Liab.**	**+**	**Equity**	**Rev.**	**-**	**Exp.**	**=**	**Net Inc.**	**Cash Flow**
A.	NA	=	NA	+	NA	NA	-	NA	=	NA	+OA
B.	+	=	+	+	NA	NA	-	NA	=	NA	+OA
C.	NA	=	+	+	-	NA	-	+	=	-	NA
D.	All of these could represent the effects of a claims exchange transaction.										

A) Option A
B) Option B
C) Option C
D) Option D

Answer: C
Explanation: A claims exchange transaction will result in either an increase in liabilities and a decrease in equity or a decrease in liabilities and an increase in equity. It may or may not affect the income statement, but it will never affect the statement of cash flows, as it does not affect any asset, including cash.
Difficulty: 2 Medium
Topic: Transaction Classification
Learning Objective: 02-09 Classify accounting events into one of four categories.
Bloom's: Analyze
AACSB: Analytical Thinking
AICPA: BB Critical Thinking; FN Measurement

Copyright ©2018 McGraw-Hill

46) Which of the following is an asset source transaction?
A) Issued common stock.
B) Paid a cash dividend to stockholders.
C) Received a payment on accounts receivable.
D) Accrued salary expense.

Answer: A
Explanation: Issuing common stock is an asset source transaction that increases assets (cash) and increases equity (common stock). Paying a cash dividend is an asset use transaction, receiving a payment on accounts receivable is an asset exchange transaction, and accruing salary expense is a claims exchange transaction.
Difficulty: 2 Medium
Topic: Transaction Classification
Learning Objective: 02-09 Classify accounting events into one of four categories.
Bloom's: Understand
AACSB: Reflective Thinking
AICPA: BB Critical Thinking; FN Measurement

47) Which of the following is an asset use transaction?
A) Purchased machine for cash.
B) Recorded insurance expense at the end of the period.
C) Invested cash in an interest earning account.
D) Accrued salary expense at the end of the period.

Answer: B
Explanation: Recording insurance expense at the end of the period is an asset use transaction that decreases assets (prepaid insurance) and decreases equity (insurance expense decreases retained earnings). Purchasing a machine for cash and investing cash in an interest earning account are asset exchange transactions. Accruing salary expense is a claims exchange transaction.
Difficulty: 2 Medium
Topic: Transaction Classification
Learning Objective: 02-09 Classify accounting events into one of four categories.
Bloom's: Understand
AACSB: Reflective Thinking
AICPA: BB Critical Thinking; FN Measurement

Copyright ©2018 McGraw-Hill

48) Which of the following is a claims exchange transaction?
A) Recognized revenue earned on a contract where the cash had been collected at an earlier date.
B) Issued common stock.
C) Invested cash in an interest earning account.
D) Purchased machine for cash.

Answer: A
Explanation: Recognizing revenue earned on a contract where the cash had been collected at an earlier date is a claims exchange transaction that decreases liabilities (unearned revenue) and increases equity (revenue increases retained earnings). Purchasing a machine for cash and investing in an interest earning account are asset exchange transactions. Issuing common stock is an asset source transaction.
Difficulty: 2 Medium
Topic: Transaction Classification
Learning Objective: 02-09 Classify accounting events into one of four categories.
Bloom's: Understand
AACSB: Reflective Thinking
AICPA: BB Critical Thinking; FN Measurement

49) Which of the following is an asset exchange transaction?
A) Issued common stock.
B) Accrued salary expense at the end of the accounting period.
C) Collected cash on accounts receivable.
D) Recognized revenue earned on a contract where the cash had been collected at an earlier date.

Answer: C
Explanation: Collecting cash on accounts receivable is an asset exchange transaction that increases one asset (cash) and decreases another asset (accounts receivable). Issuing common stock is an asset source transaction. Accruing salary expense and recognizing revenue earned on a contract where the cash had been collected at an earlier date are both claims exchange transactions.
Difficulty: 2 Medium
Topic: Transaction Classification
Learning Objective: 02-09 Classify accounting events into one of four categories.
Bloom's: Understand
AACSB: Reflective Thinking
AICPA: BB Critical Thinking; FN Measurement

Copyright ©2018 McGraw-Hill

50) Earning revenue on account would be classified as a/an?
A) claims exchange transaction.
B) asset use transaction.
C) asset source transaction.
D) asset exchange transaction.

Answer: C
Explanation: This transaction increases assets (accounts receivable) and increases equity (revenue increases retained earnings), and is therefore classified as an asset source transaction.
Difficulty: 2 Medium
Topic: Transaction Classification
Learning Objective: 02-09 Classify accounting events into one of four categories.
Bloom's: Understand
AACSB: Reflective Thinking
AICPA: BB Critical Thinking; FN Measurement

51) Vanguard Company uses accrual accounting. Indicate whether each of the following statements regarding Vanguard's accounting system is true or false.
_____ a) The recognition of accounting events and the realization of cash consequences must occur in different accounting periods.
_____ b) The cash consequence of a transaction sometimes precedes its accounting recognition.
_____ c) Expenses may either be matched to revenues they produce or to periods in which they are incurred.
_____ d) Vanguard may record accrual transactions, but may not record deferral transactions.
_____ e) Vanguard is not permitted to make cash sales.

Answer: a) This is false. Recognizing accounting events (reporting them on the financial statements) and realizing cash consequences may, but not must, occur in different accounting periods.
b) This is true. Sometimes the cash consequence of a transaction occurs after its accounting recognition. An example is prepaid rent.
c) This is true. The matching concept allows companies that use accrual accounting to match expenses with either revenues or accounting periods.
d) This is false. A company that uses accrual accounting records both accrual and deferral transactions.
e) This is false. Accrual basis companies may make cash sales and may pay cash expenses.
Difficulty: 2 Medium
Topic: Steps in an Accounting Cycle
Learning Objective: 02-04 Identify the steps in the accounting cycle.
Bloom's: Understand
AACSB: Reflective Thinking
AICPA: BB Critical Thinking; FN Measurement

Copyright ©2018 McGraw-Hill

52) Wheaton Co. performed services for a customer on account. Indicate whether each of the following statements about this transaction is true or false.
_____ a) Assets and equity both increase when the revenue is recognized.
_____ b) This transaction did not affect cash flows.
_____ c) The company recorded an increase in revenue and a decrease in accounts receivable.
_____ d) Recognition of revenue would be delayed until cash was received.
_____ e) This transaction is an example of an asset exchange transaction.

Answer: a) This is true. Assets (accounts receivable) and equity (revenue increases retained earnings) both increase.
b) This is true. Because cash is not affected, cash flows are not affected.
c) This is false. The event resulted in an increase in revenue and an increase in accounts receivable.
d) This is false. Kenyon would recognize revenue when the services are performed, not when cash is received.
e) This is false. Because assets (accounts receivable) increase, it is an asset source transaction.
Difficulty: 2 Medium
Topic: Accounting for Receivables; Steps in an Accounting Cycle; Transaction Classification
Learning Objective: 02-01 Show how receivables affect financial statements.; 02-04 Identify the steps in the accounting cycle.; 02-09 Classify accounting events into one of four categories.
Bloom's: Analyze
AACSB: Analytical Thinking
AICPA: BB Critical Thinking; FN Measurement

53) Dixon Company collected cash during December of Year 1 from a customer for services to be performed during January of Year 2. Indicate whether each of the following statements about this transaction is true or false.
_____ a) Dixon's Year 2 income statement would not be affected by this transaction.
_____ b) Dixon's Year 1 statement of cash flows would be affected by this transaction.
_____ c) This transaction is an asset exchange transaction.
_____ d) The revenue for the services provided will be recorded in Year 2.
_____ e) The transaction increases Dixon's liabilities.

Answer: a) This is false. Because work will not begin until Year 2, the revenue is recognized in Year 2.
b) This is true. Only the Year 1 statement of cash flows is affected because no cash is received in Year 2.
c) This is false. Collecting a cash advance is an asset source transaction that increases assets (cash) and increases liabilities (unearned revenue).
d) This is true. Revenue will be recognized only when services are performed during January of Year 2.
e) This is true. The transaction increases unearned revenue, a liability.
Difficulty: 2 Medium
Topic: Accounting for Unearned Revenue; Transaction Classification
Learning Objective: 02-07 Show how accounting for unearned revenues affects financial statements.; 02-09 Classify accounting events into one of four categories.
Bloom's: Analyze
AACSB: Analytical Thinking
AICPA: BB Critical Thinking; FN Measurement

Copyright ©2018 McGraw-Hill

54) Regarding the relationships of revenues and expenses to assets and liabilities, state whether each of the following statements is true or false.
_____ a) Recording an increase in a revenue account may be associated with a decrease in assets.
_____ b) Recording an increase in a revenue account may be associated with a decrease in liabilities.
_____ c) An increase in Salaries Expense may be accompanied by a decrease in Salaries Payable.
_____ d) Recording a decrease in assets may be associated with an increase in an expense account.
_____ e) A decrease in Supplies will be accompanied by an increase in Supplies Expense.

Answer: a) This is false. An increase in a revenue account is usually associated with an increase in assets, such as cash or accounts receivable.
b) This is true. Recording an increase in revenue may be associated with a decrease in liabilities, as in the case of earning revenue from a prepaid contract (unearned revenue).
c) This is false. An increase in salaries expense could be accompanied by an increase in salaries payable, as in the case of accruing salaries expense, but not a decrease.
d) This is true. Recording a decrease in assets (such as prepaid rent or insurance, or supplies) may be associated with an increase in expenses.
e) This is true. Supplies expense is increased when supplies are used, or decreased.
Difficulty: 3 Hard
Topic: Accounting for Receivables; Accounting for Payables (Adjusting the Accounts); Accounting for Prepaid Items; Accounting for Unearned Revenue; Accounting for supplies
Learning Objective: 02-01 Show how receivables affect financial statements.; 02-02 Show how payables affect financial statements.; 02-06 Show how accounting for prepaid items affects financial statements.; 02-07 Show how accounting for unearned revenues affects financial statements.
Bloom's: Analyze
AACSB: Analytical Thinking
AICPA: BB Critical Thinking; FN Measurement

Copyright ©2018 McGraw-Hill

55) Wyatt Company paid $57,000 in January of Year 2 for salaries that had been earned by employees in December of Year 1. Indicate whether each of the following statements about financial statement effects of the January of Year 2event is true or false.
_____ a) The income statement for Year 2 is not affected because the salaries expense had been recognized at the end of December in Year 1.
_____ b) Cash flows from operating activities decreased on the Year 2 statement of cash flows.
_____ c) Payment of the salaries in Year 2 increased a liability.
_____ d) The Year 2 statement of changes in stockholders' equity would not be affected because the salaries expense had been recognized at the end of December in Year 1.
_____ e) Both assets and equity decreased in Year 2 as a result of this transaction.

Answer: a) This is true. The expense is recognized in the period in which the salaries were earned, in Year 1.
b) This is true. The January, Year 2 payment decreases cash flows from operating activities in Year 2.
c) This is false. When the payment is made, salaries payable, a liability, is decreased, not increased.
d) This is true. Because the expense was recognized in Year 1, the Year 2 statement of changes in stockholders' equity is unaffected.
e) This is false. The January, Year 2 payment decreases assets (cash) and liabilities (salaries payable), but not equity.
Difficulty: 3 Hard
Topic: Accounting for Payables (Adjusting the Accounts)
Learning Objective: 02-02 Show how payables affect financial statements.
Bloom's: Analyze
AACSB: Analytical Thinking
AICPA: BB Critical Thinking; FN Measurement

Copyright ©2018 McGraw-Hill

56) Indicate whether each of the following statements about the closing process and the accounting cycle is true or false.
_____ a) The closing process transfers certain account balances to retained earnings at the end of the accounting cycle.
_____ b) Only accounts that appear on the income statement are closed at the end of each accounting cycle.
_____ c) The permanent accounts contain information that is cumulative in nature.
_____ d) The retained earnings balance at the end of any given year is equal to that year's net income.

Answer: a) This is true. The closing process transfers the balances in revenue, expense, and dividend accounts to retained earnings at the end of the period.
b) This is false. Dividends are closed, but do not appear on the income statement.
c) This is true. All balance sheet, or permanent, accounts contain cumulative information.
d) This is false. Because the retained earnings account accumulates earnings from year to year, its balance is not equal to net income in any particular year.
Difficulty: 2 Medium
Topic: Steps in an Accounting Cycle
Learning Objective: 02-04 Identify the steps in the accounting cycle.
Bloom's: Understand
AACSB: Reflective Thinking
AICPA: BB Critical Thinking; FN Measurement

Copyright ©2018 McGraw-Hill

57) Regarding the effects of end-of-period adjustments, state whether each of the following statements is true or false.
_____ a) Recording the usage of supplies involves an increase in liabilities and a decrease in equity.
_____ b) The accrual of salaries is considered a claims exchange transaction.
_____ c) Recording services performed on a prepaid contract involves a decrease in liabilities and an increase in assets.
_____ d) End-of-period adjustments often affect cash flows.
_____ e) Failure to record accrued salaries at the end of the year will cause reported net income to be higher than it should have been.

Answer: a) This is false. Recording usage of supplies decreases assets (supplies) and increases expense, which decreases equity.
b) This is true. Accruing salaries increases a liability (salaries payable) and decreases equity (salaries expense decreases retained earnings).
c) This is false. Recording service performed on a prepaid contract involves a decrease in liabilities (unearned revenue) and an increase in revenue, which increases equity. Assets are not affected.
d) This is false. End of period adjustments never affect the cash account, therefore never affect cash flows.
e) This is true. Failure to record accrued salaries would understate salaries expense, causing reported income to be higher than it should have been.
Difficulty: 2 Medium
Topic: Accounting for Payables (Adjusting the Accounts); Accounting for Unearned Revenue; Accounting for supplies
Learning Objective: 02-02 Show how payables affect financial statements.; 02-07 Show how accounting for unearned revenues affects financial statements.; 02-05 Show how accounting for supplies affects financial statements.
Bloom's: Analyze; Understand
AACSB: Analytical Thinking; Reflective Thinking
AICPA: BB Critical Thinking; FN Measurement

Copyright ©2018 McGraw-Hill

58) Indicate whether each of the following statements regarding the four types of accounting events is true or false.
_____ a) Asset exchange transactions involve an increase in one asset and a decrease in another asset.
_____ b) An asset source transaction involves an increase in assets and an increase in a corresponding claims account.
_____ c) An asset use transaction cannot result in an increase in equity.
_____ d) Asset exchange transactions cannot affect cash flows.
_____ e) Some claims exchange transactions involve an increase in a liability account and a decrease in an equity account.

Answer: a) This is true. An asset exchange transaction involves an increase in one asset and a decrease in another.
b) This is true. An asset source transaction involves an increase in assets and an increase in liabilities or equity.
c) This is true. An asset use transaction involves a decrease in assets and either a decrease in liabilities or equity. Therefore, it cannot result in an increase in equity.
d) This is false. Because an asset exchange transaction involves an increase in one asset and a decrease in another, it often affects cash.
e) This is true. Some claims exchange transactions, including accruing salaries, involve an increase in a liability and a decrease in equity.
Difficulty: 2 Medium
Topic: Transaction Classification
Learning Objective: 02-09 Classify accounting events into one of four categories.
Bloom's: Remember
AACSB: Reflective Thinking
AICPA: BB Critical Thinking; FN Measurement

59) The term "recognition" means to report an economic event in the financial statements.

Answer: TRUE
Explanation: Recognition means recording revenue or expense, which results in reporting the event in the financial statements.
Difficulty: 1 Easy
Topic: Accounting for Receivables
Learning Objective: 02-01 Show how receivables affect financial statements.
Bloom's: Remember
AACSB: Reflective Thinking
AICPA: BB Critical Thinking; FN Measurement

Copyright ©2018 McGraw-Hill

60) Companies that use accrual accounting recognize revenues and expenses at the time that cash is paid or received.

Answer: FALSE
Explanation: Accrual basis companies recognize revenue when earned and expense when incurred, regardless of when cash is received or paid.
Difficulty: 1 Easy
Topic: Accounting for Receivables; Accounting for Payables (Adjusting the Accounts); Steps in an Accounting Cycle
Learning Objective: 02-01 Show how receivables affect financial statements.; 02-02 Show how payables affect financial statements.; 02-04 Identify the steps in the accounting cycle.
Bloom's: Remember
AACSB: Reflective Thinking
AICPA: BB Critical Thinking; FN Measurement

61) The term "accrual" describes an earnings event that is recognized before cash is paid or received.

Answer: TRUE
Explanation: Accruals involve events such as earning revenue on account and incurring expense on account, in which earnings is affected before cash is paid or received.
Difficulty: 1 Easy
Topic: Accounting for Receivables; Accounting for Payables (Adjusting the Accounts); Steps in an Accounting Cycle
Learning Objective: 02-01 Show how receivables affect financial statements.; 02-02 Show how payables affect financial statements.; 02-04 Identify the steps in the accounting cycle.
Bloom's: Remember
AACSB: Reflective Thinking
AICPA: BB Critical Thinking; FN Measurement

62) A company may recognize a revenue or expense without a corresponding cash collection or payment in the same accounting period.

Answer: TRUE
Explanation: Accrual basis companies recognize revenue when earned and expense when incurred, regardless of when cash is received or paid.
Difficulty: 1 Easy
Topic: Accounting for Receivables; Accounting for Payables (Adjusting the Accounts); Steps in an Accounting Cycle
Learning Objective: 02-01 Show how receivables affect financial statements.; 02-02 Show how payables affect financial statements.; 02-04 Identify the steps in the accounting cycle.
Bloom's: Remember
AACSB: Reflective Thinking
AICPA: BB Critical Thinking; FN Measurement

Copyright ©2018 McGraw-Hill

63) A payment to an employee in settlement of salaries payable decreases an asset and decreases equity.

Answer: FALSE
Explanation: The event decreases assets (cash) and decreases liabilities (salaries payable).
Difficulty: 2 Medium
Topic: Accounting for Payables (Adjusting the Accounts)
Learning Objective: 02-02 Show how payables affect financial statements.
Bloom's: Analyze
AACSB: Analytical Thinking
AICPA: BB Critical Thinking; FN Measurement

64) An increase in an expense may be accompanied by a decrease in a liability.

Answer: FALSE
Explanation: An increase in an expense, such as salaries expense, may be accompanied by an increase in a liability, such as salaries payable, but it may not be accompanied by a decrease in a liability.
Difficulty: 1 Easy
Topic: Accounting for Payables (Adjusting the Accounts)
Learning Objective: 02-02 Show how payables affect financial statements.
Bloom's: Analyze
AACSB: Analytical Thinking
AICPA: BB Critical Thinking; FN Measurement

65) Revenues and expenses are temporary accounts.

Answer: TRUE
Explanation: Revenues and expenses, along with dividends, are temporary accounts.
Difficulty: 1 Easy
Topic: Preparing Financial Statements
Learning Objective: 02-03 Prepare financial statements that include accruals.
Bloom's: Remember
AACSB: Reflective Thinking
AICPA: BB Critical Thinking; FN Measurement

66) In the closing process, the amounts in temporary accounts are moved to net income, a permanent account.

Answer: FALSE
Explanation: All temporary account balances are moved to retained earnings, not net income, in the closing process.
Difficulty: 1 Easy
Topic: Steps in an Accounting Cycle
Learning Objective: 02-04 Identify the steps in the accounting cycle.
Bloom's: Remember
AACSB: Reflective Thinking
AICPA: BB Critical Thinking; FN Measurement

Copyright ©2018 McGraw-Hill

67) Accounts that are closed include expenses, dividends, and unearned revenues.

Answer: FALSE
Explanation: Revenues, not unearned revenues, are closed.
Difficulty: 2 Medium
Topic: Steps in an Accounting Cycle
Learning Objective: 02-04 Identify the steps in the accounting cycle.
Bloom's: Understand
AACSB: Reflective Thinking
AICPA: BB Critical Thinking; FN Measurement

68) After closing, all income statement accounts have non-zero balances.

Answer: FALSE
Explanation: All income statement accounts have zero balances after closing.
Difficulty: 1 Easy
Topic: Steps in an Accounting Cycle
Learning Objective: 02-04 Identify the steps in the accounting cycle.
Bloom's: Remember
AACSB: Reflective Thinking
AICPA: BB Critical Thinking; FN Measurement

69) Two of the steps in the accounting cycle are adjusting the accounts and closing the accounts.

Answer: TRUE
Explanation: The accounting cycle includes recording transactions, adjusting the accounts, preparing statements, and closing the accounts.
Difficulty: 1 Easy
Topic: Steps in an Accounting Cycle
Learning Objective: 02-04 Identify the steps in the accounting cycle.
Bloom's: Remember
AACSB: Reflective Thinking
AICPA: BB Critical Thinking; FN Measurement

70) Accrual-basis accounting often fails to match expenses with revenues.

Answer: FALSE
Explanation: Accrual-basis accounting matches expenses with revenues.
Difficulty: 1 Easy
Topic: Steps in an Accounting Cycle
Learning Objective: 02-04 Identify the steps in the accounting cycle.
Bloom's: Understand
AACSB: Reflective Thinking
AICPA: BB Critical Thinking; FN Measurement

Copyright ©2018 McGraw-Hill

71) The matching concept leads accountants to select the recognition alternative that produces the lowest amount of net income.

Answer: FALSE
Explanation: This is a definition of conservatism, not the matching concept.
Difficulty: 2 Medium
Topic: Steps in an Accounting Cycle
Learning Objective: 02-04 Identify the steps in the accounting cycle.
Bloom's: Understand
AACSB: Reflective Thinking
AICPA: BB Critical Thinking; FN Measurement

72) Adjusting entries never affect a business's cash account.

Answer: TRUE
Explanation: Adjusting entries involve either revenue or expense and a non-cash balance sheet account.
Difficulty: 2 Medium
Topic: The Accounting Cycle
Learning Objective: 02-04 Identify the steps in the accounting cycle.
Bloom's: Understand
AACSB: Reflective Thinking
AICPA: BB Critical Thinking; FN Measurement

73) Asset use transactions always involve the payment of cash.

Answer: FALSE
Explanation: Asset use transactions can involve a decrease in another asset account, such as supplies or prepaid rent.
Difficulty: 2 Medium
Topic: Transaction Classification
Learning Objective: 02-09 Classify accounting events into one of four categories.
Bloom's: Understand
AACSB: Reflective Thinking
AICPA: BB Critical Thinking; FN Measurement

74) Providing services to customers on account is an asset exchange transaction.

Answer: FALSE
Explanation: Providing services to customers on account is an asset source transaction that increases the asset accounts receivable.
Difficulty: 1 Easy
Topic: Accounting for Receivables; Transaction Classification
Learning Objective: 02-01 Show how receivables affect financial statements.; 02-09 Classify accounting events into one of four categories.
Bloom's: Analyze
AACSB: Analytical Thinking
AICPA: BB Critical Thinking; FN Measurement

Copyright ©2018 McGraw-Hill

75) An adjusting entry that decreases unearned revenue and increases service revenue is a claims exchange transaction.

Answer: TRUE
Explanation: Unearned revenue, a liability, decreases and service revenue increases the equity account retained earnings, making this a claims exchange transaction.
Difficulty: 2 Medium
Topic: Accounting for Unearned Revenue; Transaction Classification
Learning Objective: 02-07 Show how accounting for unearned revenues affects financial statements.; 02-09 Classify accounting events into one of four categories.
Bloom's: Analyze
AACSB: Analytical Thinking
AICPA: BB Critical Thinking; FN Measurement

76) Sometimes the recognition of revenue is accompanied by an increase in liabilities.

Answer: FALSE
Explanation: Recognition of revenue increases equity, which cannot be accompanied by an increase in liabilities. It could, however, be accompanied by a decrease in liabilities as in a claims exchange transaction.
Difficulty: 2 Medium
Topic: Transaction Classification
Learning Objective: 02-09 Classify accounting events into one of four categories.
Bloom's: Analyze
AACSB: Analytical Thinking
AICPA: BB Critical Thinking; FN Measurement

77) The collection of an account receivable is a claims exchange transaction.

Answer: FALSE
Explanation: The collection of an account receivable is an asset exchange transaction.
Difficulty: 2 Medium
Topic: Accounting for Receivables; Transaction Classification
Learning Objective: 02-01 Show how receivables affect financial statements.; 02-09 Classify accounting events into one of four categories.
Bloom's: Analyze
AACSB: Analytical Thinking
AICPA: BB Critical Thinking; FN Measurement

Copyright ©2018 McGraw-Hill