# CHAPTER 4

## COMPLETING THE ACCOUNTING CYCLE

### SUMMARY OF QUESTIONS BY STUDY OBJECTIVES AND BLOOM’S TAXONOMY

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*sg* This question also appears in the Study Guide.

*st* This question also appears in a self-test at the student companion website.

*a* This question covers a topic in an appendix to the chapter.
### SUMMARY OF QUESTIONS BY STUDY OBJECTIVES AND BLOOM’S TAXONOMY

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SUMMARY OF STUDY OBJECTIVES BY QUESTION TYPE

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<td>24. TF 37. TF 121. MC 129. MC 137. MC 163. BE 199. C</td>
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Note: TF = True-False, BE = Brief Exercise, C = Completion, MC = Multiple Choice, Ex = Exercise

The chapter also contains one set of ten Matching questions and five Short-Answer Essay questions.

CHAPTER STUDY OBJECTIVES

1. **Prepare a worksheet.** The steps in preparing a worksheet are: (a) Prepare a trial balance on the worksheet, (b) Enter the adjustments in the adjustments columns, (c) Enter adjusted balances in the adjusted trial balance columns, (d) Extend adjusted trial balance amounts to appropriate financial statement columns, and (e) Total the statement columns, compute net income (or net loss), and complete the worksheet.

2. **Explain the process of closing the books.** Closing the books occurs at the end of an accounting period. The process is to journalize and post closing entries and then rule and balance all accounts. In closing the books, companies make separate entries to close revenues and expenses to Income Summary, Income Summary to Owner's Capital, and Owner's Drawings to Owner's Capital. Only temporary accounts are closed.

3. **Describe the content and purpose of a post-closing trial balance.** A post-closing trial balance contains the balances in permanent accounts that are carried forward to the next accounting period. The purpose of this trial balance is to prove the equality of these balances.

4. **State the required steps in the accounting cycle.** The required steps in the accounting cycle are: (1) analyze business transactions, (2) journalize the transactions, (3) post to ledger accounts, (4) prepare a trial balance, (5) journalize and post adjusting entries, (6) prepare an adjusted trial balance, (7) prepare financial statements, (8) journalize and post closing entries, and (9) prepare a post-closing trial balance.

5. **Explain the approaches to preparing correcting entries.** One approach for determining the correcting entry is to compare the incorrect entry with the correct entry. After comparison, the company makes a correcting entry to correct the accounts. An alternative to a correcting entry is to reverse the incorrect entry and then prepare the correct entry.
6. **Identify the sections of a classified balance sheet.** A classified balance sheet categorizes assets as current assets; long-term investments; property, plant, and equipment; and intangibles. Liabilities are classified as either current or long-term. There is also an owner’s (owners’) equity section, which varies with the form of business organization.

7. **Prepare reversing entries.** Reversing entries are the opposite of the adjusting entries made in the preceding period. Some companies choose to make reversing entries at the beginning of a new accounting period to simplify the recording of later transactions related to the adjusting entries. In most cases, only accrued adjusting entries are reversed.

**TRUE-FALSE STATEMENTS**

1. A worksheet is a mandatory form that must be prepared along with an income statement and balance sheet.

2. If a worksheet is used, financial statements can be prepared before adjusting entries are journalized.

3. If total credits in the income statement columns of a worksheet exceed total debits, the enterprise has net income.

4. It is not necessary to prepare formal financial statements if a worksheet has been prepared because financial position and net income are shown on the worksheet.

5. The adjustments on a worksheet can be posted directly to the accounts in the ledger from the worksheet.

6. The adjusted trial balance columns of a worksheet are obtained by subtracting the adjustment columns from the trial balance columns.

7. The balance of the depreciation expense account will appear in the income statement debit column of a worksheet.

8. Closing entries are unnecessary if the business plans to continue operating in the future and issue financial statements each year.

9. The owner’s drawing account is closed to the Income Summary account in order to properly determine net income (or loss) for the period.

10. After closing entries have been journalized and posted, all temporary accounts in the ledger should have zero balances.

11. Closing revenue and expense accounts to the Income Summary account is an optional bookkeeping procedure.

12. Closing the drawing account to Capital is not necessary if net income is greater than owner's drawings during the period.
13. The owner's drawing account is a permanent account whose balance is carried forward to the next accounting period.

14. Closing entries are journalized after adjusting entries have been journalized.

15. The amounts appearing on an income statement should agree with the amounts appearing on the post-closing trial balance.

16. The post-closing trial balance is entered in the first two columns of a worksheet.

17. A business entity has only one accounting cycle over its economic existence.

18. The accounting cycle begins at the start of a new accounting period.

19. Both correcting entries and adjusting entries always affect at least one balance sheet account and one income statement account.

20. Correcting entries are made any time an error is discovered even though it may not be at the end of an accounting period.

21. An incorrect debit to Accounts Receivable instead of the correct account Notes Receivable does not require a correcting entry because total assets will not be misstated.

22. In a corporation, Retained Earnings is a part of owners' equity.

23. A company's operating cycle and fiscal year are usually the same length of time.

24. Cash and office supplies are both classified as current assets.

25. Long-term investments would appear in the property, plant, and equipment section of the balance sheet.

26. A liability is classified as a current liability if the company is to pay it within the forthcoming year.

27. A company's liquidity is concerned with the relationship between long-term investments and long-term debt.

28. Current assets are customarily the first items listed on a classified balance sheet.

29. The operating cycle of a company is determined by the number of years the company has been operating.

30. Reversing entries are an optional bookkeeping procedure.

Additional True-False Questions

31. After a worksheet has been completed, the statement columns contain all data that are required for the preparation of financial statements.

32. To close net income to owner's capital, Income Summary is debited and Owner's Capital is credited.
33. In one closing entry, Owner's Drawing is credited and Income Summary is debited.

34. The post-closing trial balance will contain only owner's equity statement accounts and balance sheet accounts.

35. The operating cycle of a company is the average time required to collect the receivables resulting from producing revenues.

36. Current assets are listed in the order of liquidity.

37. Current liabilities are obligations that the company is to pay within the coming year.

### Answers to True-False Statements

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### MULTIPLE CHOICE QUESTIONS

38. Preparing a worksheet involves
   a. two steps.
   b. three steps.
   c. four steps.
   d. five steps.

39. The adjustments entered in the adjustments columns of a worksheet are
   a. not journalized.
   b. posted to the ledger but not journalized.
   c. not journalized until after the financial statements are prepared.
   d. journalized before the worksheet is completed.

40. The information for preparing a trial balance on a worksheet is obtained from
   a. financial statements.
   b. general ledger accounts.
   c. general journal entries.
   d. business documents.

41. After the adjusting entries are journalized and posted to the accounts in the general ledger, the balance of each account should agree with the balance shown on the
   a. adjusted trial balance.
   b. post-closing trial balance.
   c. the general journal.
   d. adjustments columns of the worksheet.
42. If the total debit column exceeds the total credit column of the income statement columns on a worksheet, then the company has
a. earned net income for the period.
b. an error because debits do not equal credits.
c. suffered a net loss for the period.
d. to make an adjusting entry.

43. A worksheet is a multiple column form that facilitates the
a. identification of events.
b. measurement process.
c. preparation of financial statements.
d. analysis process.

44. Which of the following companies would be least likely to use a worksheet to facilitate the adjustment process?
   a. Large company with numerous accounts
   b. Small company with numerous accounts
   c. All companies, since worksheets are required under generally accepted accounting principles
   d. Small company with few accounts

45. A worksheet can be thought of as a(n)
   a. permanent accounting record.
b. optional device used by accountants.
c. part of the general ledger.
d. part of the journal.

46. The account, Supplies, will appear in the following debit columns of the worksheet.
   a. Trial balance
   b. Adjusted trial balance
   c. Balance sheet
   d. All of these

47. When constructing a worksheet, accounts are often needed that are not listed in the trial balance already entered on the worksheet from the ledger. Where should these additional accounts be shown on the worksheet?
   a. They should be inserted in alphabetical order into the trial balance accounts already given.
b. They should be inserted in chart of account order into the trial balance already given.
c. They should be inserted on the lines immediately below the trial balance totals.
d. They should not be inserted on the trial balance until the next accounting period.

48. When using a worksheet, adjusting entries are journalized
   a. after the worksheet is completed and before financial statements are prepared.
b. before the adjustments are entered on to the worksheet.
c. after the worksheet is completed and after financial statements have been prepared.
d. before the adjusted trial balance is extended to the proper financial statement columns.
49. Assuming that there is a net loss for the period, debits equal credits in all but which section of the worksheet?
   a. Income statement columns
   b. Adjustments columns
   c. Trial balance columns
   d. Adjusted trial balance columns

50. Adjusting entries are prepared from
   a. source documents.
   b. the adjustments columns of the worksheet.
   c. the general ledger.
   d. last year's worksheet.

51. The net income (or loss) for the period
   a. is found by computing the difference between the income statement credit column and the balance sheet credit column on the worksheet.
   b. cannot be found on the worksheet.
   c. is found by computing the difference between the income statement columns of the worksheet.
   d. is found by computing the difference between the trial balance totals and the adjusted trial balance totals.

52. The worksheet does not show
   a. net income or loss for the period.
   b. revenue and expense account balances.
   c. the ending balance in the owner's capital account.
   d. the trial balance before adjustments.

53. If the total debits exceed total credits in the balance sheet columns of the worksheet, owner's equity
   a. will increase because net income has occurred.
   b. will decrease because a net loss has occurred.
   c. is in error because a mistake has occurred.
   d. will not be affected.

Use the following information for questions 54–55.

The income statement and balance sheet columns of Pine Company's worksheet reflects the following totals:

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<th>Income Statement</th>
<th>Balance Sheet</th>
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<tbody>
<tr>
<td>Dr.</td>
<td>Cr.</td>
</tr>
<tr>
<td>Totals</td>
<td>$58,000</td>
</tr>
</tbody>
</table>

54. The net income (or loss) for the period is
   a. $48,000 income.
   b. $10,000 income.
   c. $10,000 loss.
   d. not determinable.
55. To enter the net income (or loss) for the period into the above worksheet requires an entry to the
   a. income statement debit column and the balance sheet credit column.
   b. income statement credit column and the balance sheet debit column.
   c. income statement debit column and the income statement credit column.
   d. balance sheet debit column and the balance sheet credit column.

56. Closing entries are necessary for
   a. permanent accounts only.
   b. temporary accounts only.
   c. both permanent and temporary accounts.
   d. permanent or real accounts only.

57. Each of the following accounts is closed to Income Summary except
   a. Expenses.
   b. Owner's Drawing.
   c. Revenues.
   d. All of these are closed to Income Summary.

58. Closing entries are made
   a. in order to terminate the business as an operating entity.
   b. so that all assets, liabilities, and owner's capital accounts will have zero balances when the next accounting period starts.
   c. in order to transfer net income (or loss) and owner's drawing to the owner's capital account.
   d. so that financial statements can be prepared.

59. Closing entries are
   a. an optional step in the accounting cycle.
   b. posted to the ledger accounts from the worksheet.
   c. made to close permanent or real accounts.
   d. journalized in the general journal.

60. The income summary account
   a. is a permanent account.
   b. appears on the balance sheet.
   c. appears on the income statement.
   d. is a temporary account.

61. If Income Summary has a credit balance after revenues and expenses have been closed into it, the closing entry for Income Summary will include a
   a. debit to the owner's capital account.
   b. debit to the owner's drawing account.
   c. credit to the owner's capital account.
   d. credit to the owner's drawing account.

62. Closing entries are journalized and posted
   a. before the financial statements are prepared.
   b. after the financial statements are prepared.
   c. at management's discretion.
   d. at the end of each interim accounting period.
63. Closing entries  
   a. are prepared before the financial statements.  
   b. reduce the number of permanent accounts.  
   c. cause the revenue and expense accounts to have zero balances.  
   d. summarize the activity in every account.  

64. Which of the following is a true statement about closing the books of a proprietorship?  
   a. Expenses are closed to the Expense Summary account.  
   b. Only revenues are closed to the Income Summary account.  
   c. Revenues and expenses are closed to the Income Summary account.  
   d. Revenues, expenses, and the owner's drawing account are closed to the Income Summary account.  

65. Closing entries may be prepared from all but which one of the following sources?  
   a. Adjusted balances in the ledger  
   b. Income statement and balance sheet columns of the worksheet  
   c. Balance sheet  
   d. Income and owner's equity statements  

66. In order to close the owner's drawing account, the  
   a. income summary account should be debited.  
   b. income summary account should be credited.  
   c. owner's capital account should be credited.  
   d. owner's capital account should be debited.  

67. In preparing closing entries  
   a. each revenue account will be credited.  
   b. each expense account will be credited.  
   c. the owner's capital account will be debited if there is net income for the period.  
   d. the owner's drawing account will be debited.  

68. The most efficient way to accomplish closing entries is to  
   a. credit the income summary account for each revenue account balance.  
   b. debit the income summary account for each expense account balance.  
   c. credit the owner's drawing balance directly to the income summary account.  
   d. credit the income summary account for total revenues and debit the income summary account for total expenses.  

69. The closing entry process consists of closing  
   a. all asset and liability accounts.  
   b. out the owner's capital account.  
   c. all permanent accounts.  
   d. all temporary accounts.  

70. The final closing entry to be journalized is typically the entry that closes the  
   a. revenue accounts.  
   b. owner's drawing account.  
   c. owner's capital account.  
   d. expense accounts.
71. An error has occurred in the closing entry process if
   a. revenue and expense accounts have zero balances.
   b. the owner's capital account is credited for the amount of net income.
   c. the owner's drawing account is closed to the owner's capital account.
   d. the balance sheet accounts have zero balances.

72. The Income Summary account is an important account that is used
   a. during interim periods.
   b. in preparing adjusting entries.
   c. annually in preparing closing entries.
   d. annually in preparing correcting entries.

73. The balance in the income summary account before it is closed will be equal to
   a. the net income or loss on the income statement.
   b. the beginning balance in the owner's capital account.
   c. the ending balance in the owner's capital account.
   d. zero.

74. After closing entries are posted, the balance in the owner's capital account in the ledger
   will be equal to
   a. the beginning owner's capital reported on the owner's equity statement.
   b. the amount of the owner's capital reported on the balance sheet.
   c. zero.
   d. the net income for the period.

Use the following information for questions 75–79.

The income statement for the month of June, 2008 of Delgado Enterprises contains the following information:

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<th>Revenues</th>
<th>$7,000</th>
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<td>Expenses</td>
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<tr>
<td>Wages Expense</td>
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<tr>
<td>Rent Expense</td>
<td>1,000</td>
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<tr>
<td>Supplies Expense</td>
<td>300</td>
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<tr>
<td>Advertising Expense</td>
<td>200</td>
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<tr>
<td>Insurance Expense</td>
<td>100</td>
</tr>
<tr>
<td><strong>Total expenses</strong></td>
<td><strong>3,600</strong></td>
</tr>
<tr>
<td><strong>Net income</strong></td>
<td><strong>$3,400</strong></td>
</tr>
</tbody>
</table>

75. The entry to close the revenue account includes a
   a. debit to Income Summary for $3,400.
   b. credit to Income Summary for $3,400.
   c. debit to Income Summary for $7,000.
   d. credit to Income Summary for $7,000.

76. The entry to close the expense accounts includes a
   a. debit to Income Summary for $3,400.
   b. credit to Rent Expense for $1,000,
   c. credit to Income Summary for $3,600.
   d. debit to Wages Expense for $2,000.
77. After the revenue and expense accounts have been closed, the balance in Income Summary will be
   a. $0.
   b. a debit balance of $3,400.
   c. a credit balance of $3,400.
   d. a credit balance of $7,000.

78. The entry to close Income Summary to Delgado, Capital includes
   a. a debit to Revenue for $7,000.
   b. credits to Expenses totalling $3,600.
   c. a credit to Income Summary for $3,400
   d. a credit to Delgado, Capital for $3,400.

79. At June 1, 2008, Delgado reported owner's equity of $35,000. The company had no owner drawings during June. At June 30, 2008, the company will report owner's equity of
   a. $35,000.
   b. $42,000.
   c. $38,400.
   d. $31,600.

Use the following information for questions 80–86.
The income statement for the year 2008 of Nova Co. contains the following information:

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<th>Amount</th>
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</tr>
<tr>
<td>Advertising Expense</td>
<td>6,000</td>
</tr>
<tr>
<td>Supplies Expense</td>
<td>6,000</td>
</tr>
<tr>
<td>Utilities Expense</td>
<td>2,500</td>
</tr>
<tr>
<td>Insurance Expense</td>
<td>2,000</td>
</tr>
<tr>
<td>Total expenses</td>
<td>$73,500</td>
</tr>
<tr>
<td>Net income (loss)</td>
<td>$(3,500)</td>
</tr>
</tbody>
</table>

80. The entry to close the revenue account includes a
   a. debit to Income Summary for $3,500.
   b. credit to Income Summary for $3,500.
   c. debit to Revenues for $70,000.
   d. credit to Revenues for $70,000.

81. The entry to close the expense accounts includes a
   a. debit to Income Summary for $3,500.
   b. credit to Income Summary for $3,500.
   c. debit to Income Summary for $73,500.
   d. debit to Wages Expense for $2,500.

82. After the revenue and expense accounts have been closed, the balance in Income Summary will be
   a. $0.
   b. a debit balance of $3,500.
   c. a credit balance of $3,500.
   d. a credit balance of $70,000.
83. The entry to close Income Summary to Nova, Capital includes
   a. a debit to Revenue for $70,000.
   b. credits to Expenses totalling $73,500.
   c. a credit to Income Summary for $3,500.
   d. a credit to Nova, Capital for $3,500.

84. At January 1, 2008, Nova reported owner’s equity of $50,000. Owner drawings for the year totalled $10,000. At December 31, 2008, the company will report owner’s equity of
   a. $13,500.
   b. $36,500.
   c. $40,000.
   d. $43,500.

85. After all closing entries have been posted, the Income Summary account will have a balance of
   a. $0.
   b. $3,500 debit.
   c. $3,500 credit.
   d. $36,500 credit.

86. After all closing entries have been posted, the revenue account will have a balance of
   a. $0.
   b. $70,000 credit.
   c. $70,000 debit.
   d. $3,500 credit.

87. A post-closing trial balance is prepared
   a. after closing entries have been journalized and posted.
   b. before closing entries have been journalized and posted.
   c. after closing entries have been journalized but before the entries are posted.
   d. before closing entries have been journalized but after the entries are posted.

88. All of the following statements about the post-closing trial balance are correct except it
   a. shows that the accounting equation is in balance.
   b. provides evidence that the journalizing and posting of closing entries have been properly completed.
   c. contains only permanent accounts.
   d. proves that all transactions have been recorded.

89. A post-closing trial balance will show
   a. only permanent account balances.
   b. only temporary account balances.
   c. zero balances for all accounts.
   d. the amount of net income (or loss) for the period.

90. A post-closing trial balance should be prepared
   a. before closing entries are posted to the ledger accounts.
   b. after closing entries are posted to the ledger accounts.
   c. before adjusting entries are posted to the ledger accounts.
   d. only if an error in the accounts is detected.
91. A post-closing trial balance will show
   a. zero balances for all accounts.
   b. zero balances for balance sheet accounts.
   c. only balance sheet accounts.
   d. only income statement accounts.

92. The purpose of the post-closing trial balance is to
   a. prove that no mistakes were made.
   b. prove the equality of the balance sheet account balances that are carried forward into
      the next accounting period.
   c. prove the equality of the income statement account balances that are carried forward
      into the next accounting period.
   d. list all the balance sheet accounts in alphabetical order for easy reference.

93. The balances that appear on the post-closing trial balance will match the
   a. income statement account balances after adjustments.
   b. balance sheet account balances after closing entries.
   c. income statement account balances after closing entries.
   d. balance sheet account balances after adjustments.

94. Which account listed below would be double ruled in the ledger as part of the closing
    process?
   a. Cash
   b. Owner's Capital
   c. Owner's Drawing
   d. Accumulated Depreciation

95. A double rule applied to accounts in the ledger during the closing process implies that
   a. the account is an income statement account.
   b. the account is a balance sheet account.
   c. the account balance is not zero.
   d. a mistake has been made, since double ruling is prescribed.

96. The heading for a post-closing trial balance has a date line that is similar to the one found on
   a. a balance sheet.
   b. an income statement.
   c. an owner's equity statement.
   d. the worksheet.

97. Which one of the following is usually prepared only at the end of a company's annual
    accounting period?
   a. Preparing financial statements
   b. Journalizing and posting adjusting entries
   c. Journalizing and posting closing entries
   d. Preparing an adjusted trial balance

98. The step in the accounting cycle that is performed on a periodic basis (i.e., monthly,
    quarterly) is
   a. analyzing transactions.
   b. journalizing and posting adjusting entries.
   c. preparing a post-closing trial balance.
   d. posting to ledger accounts.
99. Which one of the following is an optional step in the accounting cycle of a business enterprise?
   a. Analyze business transactions
   b. Prepare a worksheet
   c. Prepare a trial balance
   d. Post to the ledger accounts

100. The final step in the accounting cycle is to prepare
   a. closing entries.
   b. financial statements.
   c. a post-closing trial balance.
   d. adjusting entries.

101. Which of the following steps in the accounting cycle would not generally be performed daily?
   a. Journalize transactions
   b. Post to ledger accounts
   c. Prepare adjusting entries
   d. Analyze business transactions

102. Which of the following steps in the accounting cycle may be performed more frequently than annually?
   a. Prepare a post-closing trial balance
   b. Journalize closing entries
   c. Post closing entries
   d. Prepare a trial balance

103. Which of the following depicts the proper sequence of steps in the accounting cycle?
   a. Journalize the transactions, analyze business transactions, prepare a trial balance
   b. Prepare a trial balance, prepare financial statements, prepare adjusting entries
   c. Prepare a trial balance, prepare adjusting entries, prepare financial statements
   d. Prepare a trial balance, post to ledger accounts, post adjusting entries

104. The two optional steps in the accounting cycle are preparing
   a. a post-closing trial balance and reversing entries.
   b. a worksheet and post-closing trial balances.
   c. reversing entries and a worksheet.
   d. an adjusted trial balance and a post-closing trial balance.

105. The first required step in the accounting cycle is
   a. reversing entries.
   b. journalizing transactions in the book of original entry.
   c. analyzing transactions.
   d. posting transactions.

106. Correcting entries
   a. always affect at least one balance sheet account and one income statement account.
   b. affect income statement accounts only.
   c. affect balance sheet accounts only.
   d. may involve any combination of accounts in need of correction.
107. Speedy Bike Company received a $940 check from a customer for the balance due. The transaction was erroneously recorded as a debit to Cash $490 and a credit to Service Revenue $490. The correcting entry is
   a. debit Cash, $940; credit Accounts Receivable, $940.
   b. debit Cash, $450 and Accounts Receivable, $490; credit Service Revenue, $940.
   c. debit Cash, $450 and Service Revenue, $490; credit Accounts Receivable, $940.
   d. debit Accounts Receivable, $940; credit Cash, $450 and Service Revenue, $490.

108. If errors occur in the recording process, they
   a. should be corrected as adjustments at the end of the period.
   b. should be corrected as soon as they are discovered.
   c. should be corrected when preparing closing entries.
   d. cannot be corrected until the next accounting period.

109. A correcting entry
   a. must involve one balance sheet account and one income statement account.
   b. is another name for a closing entry.
   c. may involve any combination of accounts.
   d. is a required step in the accounting cycle.

110. An unacceptable way to make a correcting entry is to
   a. reverse the incorrect entry.
   b. erase the incorrect entry.
   c. compare the incorrect entry with the correct entry and make a correcting entry to correct the accounts.
   d. correct it immediately upon discovery.

111. Cole Company paid the weekly payroll on January 2 by debiting Wages Expense for $45,000. The accountant preparing the payroll entry overlooked the fact that Wages Expense of $27,000 had been accrued at year end on December 31. The correcting entry is
   a. Wages Payable................................................................. 27,000
      Cash........................................................................... 27,000
   b. Cash .............................................................................. 18,000
      Wages Expense..................................................... 18,000
   c. Wages Payable................................................................. 27,000
      Wages Expense..................................................... 27,000
   d. Cash .............................................................................. 27,000
      Wages Expense..................................................... 27,000

112. Tyler Company paid $530 on account to a creditor. The transaction was erroneously recorded as a debit to Cash of $350 and a credit to Accounts Receivable, $350. The correcting entry is
   a. Accounts Payable............................................................. 530
      Cash........................................................................... 530
   b. Accounts Receivable ................................................... 350
      Cash........................................................................... 350
   c. Accounts Receivable ................................................... 350
      Accounts Payable................................................... 350
   d. Accounts Receivable ................................................... 350
      Accounts Payable................................................... 530
      Cash........................................................................... 880
113. A lawyer collected $830 of legal fees in advance. He erroneously debited Cash for $380 and credited Accounts Receivable for $380. The correcting entry is
   a. Cash................................................................. 380
      Accounts Receivable........................................... 450
      Unearned Revenue ........................................... 830
   b. Cash................................................................. 830
      Service Revenue ............................................... 830
   c. Cash................................................................. 450
      Accounts Receivable........................................... 380
      Unearned Revenue ........................................... 830
   d. Cash................................................................. 450
      Accounts Receivable ........................................... 450

114. All of the following are property, plant, and equipment except
   a. supplies.
   b. machinery.
   c. land.
   d. buildings.

115. The first item listed under current liabilities is usually
   a. accounts payable.
   b. notes payable.
   c. salaries payable.
   d. taxes payable.

116. Office Equipment is classified in the balance sheet as
   a. a current asset.
   b. property, plant, and equipment.
   c. an intangible asset.
   d. a long-term investment.

117. A current asset is
   a. the last asset purchased by a business.
   b. an asset which is currently being used to produce a product or service.
   c. usually found as a separate classification in the income statement.
   d. an asset that a company expects to convert to cash or use up within one year.

118. An intangible asset
   a. does not have physical substance, yet often is very valuable.
   b. is worthless because it has no physical substance.
   c. is converted into a tangible asset during the operating cycle.
   d. cannot be classified on the balance sheet because it lacks physical substance.

119. Liabilities are generally classified on a balance sheet as
   a. small liabilities and large liabilities.
   b. present liabilities and future liabilities.
   c. tangible liabilities and intangible liabilities.
   d. current liabilities and long-term liabilities.
120. Which of the following would not be classified a long-term liability?
   a. Current maturities of long-term debt
   b. Bonds payable
   c. Mortgage payable
   d. Lease liabilities

121. Which of the following liabilities are not related to the operating cycle?
   a. Wages payable
   b. Accounts payable
   c. Utilities payable
   d. Bonds payable

122. Intangible assets include each of the following except
   a. copyrights.
   b. goodwill.
   c. land improvements.
   d. patents.

123. It is not true that current assets are assets that a company expects to
   a. realize in cash within one year.
   b. sell within one year.
   c. use up within one year.
   d. acquire within one year.

124. The operating cycle of a company is the average time that is required to go from cash to
   a. sales in producing revenues.
   b. cash in producing revenues.
   c. inventory in producing revenues.
   d. accounts receivable in producing revenues.

125. On a classified balance sheet, current assets are customarily listed
   a. in alphabetical order.
   b. with the largest dollar amounts first.
   c. in the order of liquidity.
   d. in the order of acquisition.

126. Intangible assets are
   a. listed under current assets on the balance sheet.
   b. not listed on the balance sheet because they do not have physical substance.
   c. noncurrent resources.
   d. listed as a long-term investment on the balance sheet.

127. The relationship between current assets and current liabilities is important in evaluating a company's
   a. profitability.
   b. liquidity.
   c. market value.
   d. accounting cycle.
128. The most important information needed to determine if companies can pay their current obligations is the
   a. net income for this year.
   b. projected net income for next year.
   c. relationship between current assets and current liabilities.
   d. relationship between short-term and long-term liabilities.

Use the following information for questions 129–137.

The following items are taken from the financial statements of Cerner Company for the year ending December 31, 2008:

- Accounts payable $18,000
- Accounts receivable $11,000
- Accumulated depreciation – equipment $28,000
- Advertising expense $21,000
- Cash $15,000
- Cerner, Capital (1/1/08) $102,000
- Cerner, Drawing $14,000
- Depreciation expense $12,000
- Insurance expense $3,000
- Note payable, due 6/30/09 $70,000
- Prepaid insurance (12-month policy) $6,000
- Rent expense $17,000
- Salaries expense $32,000
- Service revenue $133,000
- Supplies $4,000
- Supplies expense $6,000
- Equipment $210,000

129. What is the company’s net income for the year ending December 31, 2008?
   a. $133,000
   b. $42,000
   c. $28,000
   d. $12,000

130. What is the balance that would be reported for owner’s equity at December 31, 2008?
   a. $102,000
   b. $130,000
   c. $144,000
   d. $158,000

131. What are total current assets at December 31, 2008?
   a. $26,000
   b. $32,000
   c. $36,000
   d. $218,000

132. What is the book value of the equipment at December 31, 2008?
   a. $238,000
   b. $210,000
   c. $182,000
   d. $170,000
133. What are total current liabilities at December 31, 2008?
   a. $18,000
   b. $70,000
   c. $88,000
   d. $0

134. What are total long-term liabilities at December 31, 2008?
   a. $0
   b. $70,000
   c. $88,000
   d. $90,000

135. What is total liabilities and owner’s equity at December 31, 2008?
   a. $176,000
   b. $190,000
   c. $218,000
   d. $232,000

136. The sub-classifications for assets on the company’s classified balance sheet would include all of the following except:
   b. Property, Plant, and Equipment.
   c. Intangible Assets.
   d. Long-term Assets.

137. The current assets should be listed on Cerner’s balance sheet in the following order:
   a. cash, accounts receivable, prepaid insurance, equipment.
   b. cash, prepaid insurance, supplies, accounts receivable.
   c. cash, accounts receivable, prepaid insurance, supplies.
   d. equipment, supplies, prepaid insurance, accounts receivable, cash.

138. Which statement about long-term investments is not true?
   a. They will be held for more than one year.
   b. They are not currently used in the operation of the business.
   c. They include investments in stock of other companies and land held for future use.
   d. They can never include cash accounts.

139. What is the order in which assets are generally listed on a classified balance sheet?
   a. Current and long-term
   b. Current; property, plant, and equipment; long-term investments; intangible assets
   c. Current; property, plant, and equipment; intangible assets; long-term investments
   d. Current; long-term investments; property, plant, and equipment; intangible assets

140. These are selected account balances on December 31, 2008.

<table>
<thead>
<tr>
<th>Account</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Land (location of the corporation’s office building)</td>
<td>$100,000</td>
</tr>
<tr>
<td>Land (held for future use)</td>
<td>$150,000</td>
</tr>
<tr>
<td>Corporate Office Building</td>
<td>$600,000</td>
</tr>
<tr>
<td>Inventory</td>
<td>$200,000</td>
</tr>
<tr>
<td>Equipment</td>
<td>$450,000</td>
</tr>
<tr>
<td>Office Furniture</td>
<td>$100,000</td>
</tr>
<tr>
<td>Accumulated Depreciation</td>
<td>$300,000</td>
</tr>
</tbody>
</table>
What is the total amount of property, plant, and equipment that will appear on the balance sheet?
   a. $1,300,000
   b. $1,100,000
   c. $1,600,000
   d. $950,000

141. The following selected account balances appear on the December 31, 2008 balance sheet of Ming Co.
   Land (location of the corporation’s office building) $150,000
   Land (held for future use) 225,000
   Corporate Office Building 900,000
   Inventory 300,000
   Equipment 675,000
   Office Furniture 150,000
   Accumulated Depreciation 450,000

   What is the total amount of property, plant, and equipment that will be reported on the balance sheet?
   a. $1,950,000
   b. $1,650,000
   c. $2,400,000
   d. $1,425,000

142. A reversing entry
   a. reverses entries that were made in error.
   b. is the exact opposite of an adjusting entry made in a previous period.
   c. is made when a business disposes of an asset it previously purchased.
   d. is made when a company sustains a loss in one period and reverses the effect with a profit in the next period.

143. If a company utilizes reversing entries, they will
   a. be made at the beginning of the next accounting period.
   b. not actually be posted to the general ledger accounts.
   c. be made before the post-closing trial balance.
   d. be part of the adjusting entry process.

Additional Multiple Choice Questions

144. The steps in the preparation of a worksheet do not include
   a. analyzing documentary evidence.
   b. preparing a trial balance on the worksheet.
   c. entering the adjustments in the adjustment columns.
   d. entering adjusted balances in the adjusted trial balance columns.

145. Balance sheet accounts are considered to be
   a. temporary owner’s equity accounts.
   b. permanent accounts.
   c. capital accounts.
   d. nominal accounts.
146. Income Summary has a credit balance of $12,000 in J. Sawyer Co. after closing revenues and expenses. The entry to close Income Summary is
   a. credit Income Summary $12,000, debit J. Sawyer, Capital $12,000.
   b. credit Income Summary $12,000, debit J. Sawyer, Drawing $12,000.
   c. debit Income Summary $12,000, credit J. Sawyer, Drawing $12,000.
   d. debit Income Summary $12,000, credit J. Sawyer, Capital $12,000.

147. The post-closing trial balance contains only
   a. income statement accounts.
   b. balance sheet accounts.
   c. balance sheet and income statement accounts.
   d. income statement, balance sheet, and owner's equity statement accounts.

148. Which of the following is an optional step in the accounting cycle?
   a. Adjusting entries
   b. Closing entries
   c. Correcting entries
   d. Reversing entries

149. Which one of the following statements concerning the accounting cycle is incorrect?
   a. The accounting cycle includes journalizing transactions and posting to ledger accounts.
   b. The accounting cycle includes only one optional step.
   c. The steps in the accounting cycle are performed in sequence.
   d. The steps in the accounting cycle are repeated in each accounting period.

150. Correcting entries are made
   a. at the beginning of an accounting period.
   b. at the end of an accounting period.
   c. whenever an error is discovered.
   d. after closing entries.

151. On September 23, Pitts Company received a $350 check from Mike Moluf for services to be performed in the future. The bookkeeper for Pitts Company incorrectly debited Cash for $350 and credited Accounts Receivable for $350. The amounts have been posted to the ledger. To correct this entry, the bookkeeper should
   a. debit Cash $350 and credit Unearned Service Revenue $350.
   b. debit Accounts Receivable $350 and credit Unearned Service Revenue $350.
   c. debit Accounts Receivable $350 and credit Cash $350.
   d. debit Accounts Receivable $350 and credit Service Revenue $350.

152. All of the following are owner's equity accounts except
   a. the Capital account.
   b. Capital Stock.
   c. Investment in Stock.
   d. Retained Earnings.
153. Current liabilities
   a. are obligations that the company is to pay within the forthcoming year.
   b. are listed in the balance sheet in order of their expected maturity.
   c. are listed in the balance sheet, starting with accounts payable.
   d. should not include long-term debt that is expected to be paid within the next year.

154. The use of reversing entries
   a. is a required step in the accounting cycle.
   b. changes the amounts reported in the financial statements.
   c. simplifies the recording of subsequent transactions.
   d. is required for all adjusting entries.

Answers to Multiple Choice Questions

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</tbody>
</table>
BRIEF EXERCISES

BE 155
Use the following income statement for the year 2008 for J. S. Caper Company to prepare entries to close the revenue and expense accounts for the company.

Service revenues $100,000
Expenses:
  Wages Expense $40,000
  Rent Expense 12,500
  Advertising Expense 5,700
  Total expenses 58,200
Net income (loss) $ 41,800

Solution 155 (5 min.)

Service Revenue ................................................................. 100,000
Income Summary .............................................................. 100,000

Income Summary ................................................................. 58,200
  Wages Expense ............................................................. 40,000
  Rent Expense ................................................................. 12,500
  Advertising Expense ....................................................... 5,700

BE 156
T. Price Company earned net income of $43,000 during 2008. The company had owner drawings totalling $30,000 during the period. Prepare the entries to close Income Summary and the Price, Drawing account.

Solution 156 (3 min.)

Income Summary ................................................................. 43,000
  Price, Capital ................................................................. 43,000

Price, Capital ................................................................. 30,000
  Price, Drawing ............................................................... 30,000

BE 157
At April 1, 2008, Clinton Company reported a balance of $22,000 in the Clinton, Capital account. Clinton Company earned revenues of $50,000 and incurred expenses of $32,000 during April 2008. The company had owner drawings of $10,000 during the month.

(a) Prepare the entries to close Income Summary and the Clinton, Drawing account at April 30, 2008.
(b) What is the balance in Clinton, Capital on the April 30, 2008 post-closing trial balance?
Solution 157 (3 min.)
(a) Income Summary .......................................................... 18,000
    Clinton, Capital ......................................................... 18,000
    Clinton, Capital ......................................................... 10,000
    Clinton, Drawing ....................................................... 10,000
(b) $22,000 + $18,000 – $10,000 = $30,000

BE 158
Identify which of the following are temporary accounts of Renfro Company.
(1) Renfro, Capital
(2) Renfro, Drawing
(3) Equipment
(4) Accumulated Depreciation
(5) Depreciation Expense

Solution 158 (3 min.)
(2) Renfro, Drawing, (5) Depreciation Expense

BE 159
Identify which of the following accounts would have balances on a post-closing trial balance.
(1) Service Revenue
(2) Income Summary
(3) Notes Payable
(4) Interest Expense
(5) Cash

Solution 159 (3 min.)
(3) Notes Payable, (5) Cash

BE 160
Prepare the necessary correcting entry for each of the following.
a. A payment on account of $500 was debited to Accounts Payable $550 and credited to Cash $550.
b. The collection of Accounts Receivable of $660 was recorded as a debit to Cash $660 and a credit to Service Revenue $660.
Solution 160  (4 min.)

a. Cash ........................................................................................................... 50
    Accounts Payable .................................................................................. 50

b. Service Revenue ...................................................................................... 660
    Accounts Receivable ........................................................................... 660

BE 161

Prepare the necessary correcting entry for each of the following.

a. A payment of $5,000 for salaries was recorded as a debit to Supplies Expense and a credit to Cash.

b. A purchase of supplies on account for $1,000 was recorded as a debit to Equipment and a credit to Accounts Payable.

Solution 161  (4 min.)

a. Salaries Expense ..................................................................................... 5,000
    Supplies Expense .................................................................................. 5,000

b. Supplies .................................................................................................. 1,000
    Equipment ............................................................................................... 1,000

BE 162

The following accounts were included on Stacy’s Style Consultants post-closing trial balance at December 31, 2008:

- Accounts payable $ 2,000
- Accounts receivable 5,500
- Cash 11,000
- Stacy, Capital 40,000
- Stacy, Drawing 10,000
- Interest expense 3,000
- Note payable, due 8/31/11 60,000
- Supplies 1,000
- Service revenue 39,000
- Equipment 5,000

(a) What are total current assets?
(b) What are total current liabilities?

Solution 162  (4 min.)

(a) $5,500 + $11,000 + $1,000 = $17,500
(b) $2,000
The following items are taken from the adjusted trial balance of Salon Company for the month ending July 31, 2008:

- Accounts payable $2,000
- Accounts receivable 3,000
- Accumulated depreciation – equipment 8,000
- Cash 2,200
- Depreciation expense 2,000
- Equipment 54,000
- Salon, Capital 7/1/08 52,000
- Service revenue 33,000
- Supplies 1,200

Prepare the current assets section of Salon’s classified balance sheet.

**Solution 163** (4 min.)

Current assets:

- Cash $2,200
- Accounts receivable 3,000
- Supplies 1,200
- Total current assets $6,400

The following information is available for Juxton Company for the year ended December 31, 2008:

- Accounts payable $2,700
- Accumulated depreciation, equipment 4,000
- Juxton, Capital 7,800
- Intangible assets 2,500
- Notes payable (due in 5 years) 7,500
- Accounts receivable 1,500
- Cash 2,600
- Short-term investments 1,000
- Equipment 7,500
- Long-term investments 6,900

**Instructions**

Use the above information to prepare a classified balance sheet for the year ended December 31, 2008.
Solution 164  (10 min.)

JUXTON COMPANY
Balance Sheet
For the Year Ended December 31, 2008

Assets

Current Assets
- Cash $2,600
- Short-term investments 1,000
- Accounts receivable 1,500
Total Current Assets $5,100

Investments
- Long-term investments 6,900

Property, Plant, and Equipment
- Equipment 7,500
- Less Accumulated depreciation, equipment 4,000
- Intangible assets 2,500
Total Assets $18,000

Liabilities and Owner's Equity

Current Liabilities
- Accounts payable $2,700

Long-term liabilities
- Notes payable 7,500
Total Liabilities $10,200

Owner's equity
- Juxton, Capital 7,800
Total owner's equity 7,800
Total liabilities and owner's equity $18,000

BE 165

The following lettered items represent a classification scheme for a balance sheet, and the numbered items represent accounts found on balance sheets. In the blank next to each account, write the letter indicating to which category it belongs.

A. Current assets  E. Current liabilities
B. Long-term investments  F. Long-term liabilities
C. Property, plant, and equipment  G. Owner's equity
D. Intangible assets  H. Not on the balance sheet

____  1. Accumulated Depreciation  ____  6. Inventory
____  2. Jones, Capital  ____  7. Patents
____  3. Interest Expense  ____  8. Prepaid Rent
____  5. Jones, Drawing  ____  10. Land Held for Investment
Solution 165  (5 min.)
1. C 6. A
2. G 7. D
3. H 8. A
5. H 10. B

aBE 166
J. Bishop Company prepared the following adjusting entries at year end on December 31, 2008:
(a) Interest Expense ................................................................. 100
    Interest Payable ............................................................... 100
(d) Interest Receivable ............................................................ 250
    Interest Revenue ............................................................... 250
(c) Salary Expense ................................................................. 4,000
    Salary Payable ................................................................. 4,000


aSolution 166  (5 min.)
(a) Reverse the entry to accrue interest expense.
    Interest Payable ............................................................... 100
    Interest Expense ............................................................... 100
(b) Reverse the entry to accrue interest revenue.
    Interest Revenue ............................................................... 250
    Interest Receivable ............................................................ 250
(c) Reverse the entry to accrue salaries expense.
    Salary Payable ................................................................. 4,000
    Salary Expense ................................................................. 4,000
EXERCISES

Ex. 167

The worksheet for Kiner Company has been completed through the adjusted trial balance. You are ready to extend each amount to the appropriate financial statement column. Indicate for each account, the financial statement column to which the account should be extended by placing a check mark (✓) in the appropriate column.

<table>
<thead>
<tr>
<th>Account Title</th>
<th>Income Statement</th>
<th>Balance Sheet</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Dr.</td>
<td>Cr.</td>
</tr>
<tr>
<td>(1) Cash</td>
<td></td>
<td></td>
</tr>
<tr>
<td>(2) Kiner, Capital</td>
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</tr>
<tr>
<td>(3) Mortgage Payable</td>
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<td></td>
</tr>
<tr>
<td>(4) Interest Receivable</td>
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<td></td>
</tr>
<tr>
<td>(5) Supplies</td>
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<td></td>
</tr>
<tr>
<td>(6) Accounts Payable</td>
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<td></td>
</tr>
<tr>
<td>(7) Short-term Investments</td>
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<td></td>
</tr>
<tr>
<td>(8) Repair Expense</td>
<td></td>
<td></td>
</tr>
<tr>
<td>(9) Unearned Service Revenue</td>
<td></td>
<td></td>
</tr>
<tr>
<td>(10) Equipment</td>
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<tr>
<td>(11) Depreciation Expense</td>
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</tr>
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<td>(12) Interest Revenue</td>
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</tr>
<tr>
<td>(13) Salaries Expense</td>
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</tr>
<tr>
<td>(14) Kiner, Drawing</td>
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<tr>
<td>(16) Utilities Expense</td>
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<td>(20) Service Revenue</td>
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</table>
**Solution 167**  (10 min.)

<table>
<thead>
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<th>Account Title</th>
<th>Income Statement</th>
<th>Balance Sheet</th>
</tr>
</thead>
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<tr>
<td></td>
<td>Dr.</td>
<td>Cr.</td>
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<tr>
<td>(1) Cash</td>
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<tr>
<td>(2) Kiner, Capital</td>
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<td>(3) Mortgage Payable</td>
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<td>(4) Interest Receivable</td>
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<td>√</td>
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<tr>
<td>(5) Supplies</td>
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<td>√</td>
</tr>
<tr>
<td>(6) Accounts Payable</td>
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</tr>
<tr>
<td>(7) Short-term Investments</td>
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<tr>
<td>(8) Repair Expense</td>
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<tr>
<td>(10) Equipment</td>
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<td>(12) Interest Revenue</td>
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<td>(18) Accounts Receivable</td>
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<td>(20) Service Revenue</td>
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</table>
Ex. 168
Indicate the worksheet column (income statement Dr., balance sheet Cr., etc.) to which each of the following accounts would be extended.

<table>
<thead>
<tr>
<th>Account</th>
<th>Worksheet Column</th>
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</thead>
<tbody>
<tr>
<td>a. Accounts Receivable</td>
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</tr>
<tr>
<td>b. Accumulated Depreciation</td>
<td>________________</td>
</tr>
<tr>
<td>c. Commission Revenue</td>
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<td>d. Interest Expense</td>
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<tr>
<td>e. Smith, Drawing</td>
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</tr>
<tr>
<td>f. Unearned Revenue</td>
<td>________________</td>
</tr>
</tbody>
</table>

**Solution 168** (5 min.)

a. Balance sheet Dr.
b. Balance sheet Cr.
c. Income statement Cr.
d. Income statement Dr.
e. Balance sheet Dr.
f. Balance sheet Cr.
The worksheet for Vietti Rental Company appears below. Using the adjustment data below, complete the worksheet. Add any accounts that are necessary.

**Adjustment data:**

(a) Prepaid rent expired during August, $2.
(b) Depreciation expense on office equipment for the month of August, $8.
(c) Supplies on hand on August 31 amounted to $6.
(d) Salaries expense incurred at August 31 but not yet paid amounted to $10.

**VIETTI RENTAL COMPANY**  
**Worksheet**  
**For the Month Ended August 31, 2008**

<table>
<thead>
<tr>
<th>Account Titles</th>
<th>Trial Balance</th>
<th>Adjustments</th>
<th>Adjusted Trial Balance</th>
<th>Income Statement</th>
<th>Balance Sheet</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
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</table>
VIETTI RENTAL COMPANY  
Worksheet  
For the Month Ended August 31, 2008

<table>
<thead>
<tr>
<th>Account Titles</th>
<th>Trial Balance</th>
<th>Adjustments</th>
<th>Adjusted Trial Balance</th>
<th>Income Statement</th>
<th>Balance Sheet</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Debit</td>
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<td></td>
<td></td>
<td>77 77</td>
<td>96 96</td>
</tr>
</tbody>
</table>
Ex. 170

The account balances appearing on the trial balance (below) were taken from the general ledger of Mann's Copy Shop at September 30.

Additional information for the month of September which has not yet been recorded in the accounts is as follows:

(a) A physical count of supplies indicates $300 on hand at September 30.
(b) The amount of insurance that expired in the month of September was $200.
(c) Depreciation on equipment for September was $400.
(d) Rent owed on the copy shop for the month of September was $600 but will not be paid until October.

Instructions

Using the above information, complete the worksheet on the following page for Mann's Copy Shop for the month of September.
### MANN’S COPY SHOP
Worksheet
For the Month Ended September 30, 2008

<table>
<thead>
<tr>
<th>Account Titles</th>
<th>Trial Balance</th>
<th>Adjustments</th>
<th>Adjusted Trial Balance</th>
<th>Income Statement</th>
<th>Balance Sheet</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Debit Credit</td>
<td>Debit Credit</td>
<td>Debit Credit</td>
<td>Debit Credit</td>
<td>Debit Credit</td>
</tr>
<tr>
<td>Cash</td>
<td>1,000</td>
<td></td>
<td>1,000</td>
<td>1,000</td>
<td>1,000</td>
</tr>
<tr>
<td>Supplies</td>
<td>1,100</td>
<td>(a) 800</td>
<td>1,900</td>
<td>300</td>
<td>300</td>
</tr>
<tr>
<td>Prepaid Insurance</td>
<td>2,200</td>
<td>(b) 200</td>
<td>2,000</td>
<td>2,000</td>
<td>2,000</td>
</tr>
<tr>
<td>Equipment</td>
<td>24,000</td>
<td></td>
<td>24,000</td>
<td>24,000</td>
<td>24,000</td>
</tr>
<tr>
<td>Accum. Depreciation—Equipment</td>
<td>4,500</td>
<td>(c) 400</td>
<td>4,900</td>
<td>4,900</td>
<td>4,900</td>
</tr>
<tr>
<td>Accounts Payable</td>
<td>2,400</td>
<td></td>
<td>2,400</td>
<td>2,400</td>
<td>2,400</td>
</tr>
<tr>
<td>Notes Payable</td>
<td>4,000</td>
<td></td>
<td>4,000</td>
<td>4,000</td>
<td>4,000</td>
</tr>
<tr>
<td>Mann, Capital</td>
<td>15,300</td>
<td></td>
<td>15,300</td>
<td>15,300</td>
<td>15,300</td>
</tr>
<tr>
<td>Mann, Drawing</td>
<td>2,400</td>
<td></td>
<td>2,400</td>
<td>2,400</td>
<td>2,400</td>
</tr>
<tr>
<td>Copy Revenue</td>
<td>4,900</td>
<td></td>
<td>4,900</td>
<td>4,900</td>
<td>4,900</td>
</tr>
<tr>
<td>Utilities Expense</td>
<td>400</td>
<td></td>
<td>400</td>
<td>400</td>
<td>400</td>
</tr>
<tr>
<td>Totals</td>
<td><strong>31,100</strong></td>
<td><strong>31,100</strong></td>
<td><strong>31,100</strong></td>
<td><strong>31,100</strong></td>
<td><strong>31,100</strong></td>
</tr>
<tr>
<td>Supplies Expense</td>
<td>(a) 800</td>
<td></td>
<td>800</td>
<td>800</td>
<td>800</td>
</tr>
<tr>
<td>Insurance Expense</td>
<td>(b) 200</td>
<td></td>
<td>200</td>
<td>200</td>
<td>200</td>
</tr>
<tr>
<td>Depreciation Expense</td>
<td>(c) 400</td>
<td></td>
<td>400</td>
<td>400</td>
<td>400</td>
</tr>
<tr>
<td>Rent Expense</td>
<td>(d) 600</td>
<td></td>
<td>600</td>
<td>600</td>
<td>600</td>
</tr>
<tr>
<td>Rent Payable</td>
<td></td>
<td>(d) 600</td>
<td>600</td>
<td></td>
<td>600</td>
</tr>
<tr>
<td>Totals</td>
<td><strong>2,000</strong></td>
<td><strong>2,000</strong></td>
<td><strong>32,100</strong></td>
<td><strong>2,400</strong></td>
<td><strong>29,700</strong></td>
</tr>
<tr>
<td>Net Income</td>
<td></td>
<td></td>
<td></td>
<td><strong>2,500</strong></td>
<td><strong>29,700</strong></td>
</tr>
<tr>
<td>Totals</td>
<td></td>
<td></td>
<td></td>
<td><strong>4,900</strong></td>
<td><strong>29,700</strong></td>
</tr>
</tbody>
</table>
Ex. 171

Prepare the necessary closing entries based on the following selected accounts.

Accumulated Depreciation $10,000  
Depreciation Expense 5,000  
Kline, Capital 20,000  
Kline, Drawing 12,000  
Salaries Expense 18,000  
Service Revenue 30,000

Solution 171 (8–10 min.)

Service Revenue 30,000
Income Summary 30,000
Income Summary 23,000
Depreciation Expense 5,000
Salaries Expense 18,000
Income Summary 7,000
Kline, Capital 7,000
Kline, Capital 12,000
Kline, Drawing 12,000

Ex. 172

All revenue and expense accounts have been closed at the end of the calendar year for Staley Company. The Income Summary account has total debits of $520,000 and total credits of $600,000. As of the same date, Ron Staley, Capital has a balance of $115,000, and Ron Staley, Drawing has a balance of $48,000.

Instructions
(a) Journalize the entries required to complete the closing of the accounts.
(b) Prepare an owner's equity statement for the year ended December 31, 2008.

Solution 172 (10 min.)

(a) Income Summary 80,000
   Ron Staley, Capital 80,000
   (To close net income to capital)

   Ron Staley, Capital 48,000
   Ron Staley, Drawing 48,000
   (To close drawings to capital)
Solution 172  (cont.)

(b) STALEY COMPANY
Owner's Equity Statement
For the Year Ended December 31, 2008

\[
\begin{align*}
\text{Ron Staley, Capital, January 1} & \quad \$115,000 \\
\text{Add: Net income} & \quad 80,000 \\
\hline
\text{195,000} \\
\text{Less: Drawings} & \quad 48,000 \\
\hline
\text{Ron Staley, Capital, December 31} & \quad \$147,000 \\
\end{align*}
\]

Ex. 173

At March 31, account balances after adjustments for Norton Cinema are as follows:

<table>
<thead>
<tr>
<th>Accounts</th>
<th>Account Balances (After Adjustment)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash</td>
<td>$ 6,000</td>
</tr>
<tr>
<td>Concession Supplies</td>
<td>4,000</td>
</tr>
<tr>
<td>Theatre Equipment</td>
<td>50,000</td>
</tr>
<tr>
<td>Accumulated Depreciation—Theatre Equipment</td>
<td>12,000</td>
</tr>
<tr>
<td>Accounts Payable</td>
<td>5,000</td>
</tr>
<tr>
<td>Norton, Capital</td>
<td>20,000</td>
</tr>
<tr>
<td>Norton, Drawing</td>
<td>12,000</td>
</tr>
<tr>
<td>Admission Ticket Revenues</td>
<td>60,000</td>
</tr>
<tr>
<td>Popcorn Revenues</td>
<td>32,000</td>
</tr>
<tr>
<td>Candy Revenues</td>
<td>19,000</td>
</tr>
<tr>
<td>Advertising Expense</td>
<td>12,000</td>
</tr>
<tr>
<td>Concession Supplies Expense</td>
<td>19,000</td>
</tr>
<tr>
<td>Depreciation Expense</td>
<td>4,000</td>
</tr>
<tr>
<td>Film Rental Expense</td>
<td>16,000</td>
</tr>
<tr>
<td>Rent Expense</td>
<td>12,000</td>
</tr>
<tr>
<td>Salaries Expense</td>
<td>18,000</td>
</tr>
<tr>
<td>Utilities Expense</td>
<td>5,000</td>
</tr>
</tbody>
</table>

Instructions
Prepare the closing journal entries for Norton Cinema.

Solution 173  (10 min.)

Mar. 31 Admission Ticket Revenues ........................................ 60,000
          Popcorn Revenues ................................................. 32,000
          Candy Revenues ................................................ 19,000
          Income Summary ............................................... 111,000
          (To close revenue accounts)
Solution 173  (cont.)

31 Income Summary................................................................... 86,000
Advertising Expense.............................................................. 12,000
Concession Supplies Expense.............................................. 19,000
Depreciation Expense.......................................................... 4,000
Film Rental Expense............................................................ 16,000
Rent Expense............................................................... 12,000
Salaries Expense................................................................. 18,000
Utilities Expense............................................................... 5,000
(To close expense accounts)

31 Income Summary................................................................... 25,000
Norton, Capital........................................................................ 25,000
(To transfer net income to capital)

31 Norton, Capital........................................................................ 12,000
Norton, Drawing...................................................................... 12,000
(To close drawings to capital)

Ex. 174

Presented below is an adjusted trial balance for Trent Company, at December 31, 2008.

Cash $12,700 Accounts payable $10,000
Accounts receivable 20,000 Notes payable 9,000
Prepaid insurance 15,000 Accumulated Depreciation—
Equipment 35,000 Equipment 14,000
Depreciation expense 7,000 Service revenue 25,000
M. Trent, Drawing 1,500 M. Trent, Capital 24,000
Advertising expense 1,400 Unearned revenue 16,000
Rent expense 800
Salary expense 3,000
Insurance expense 1,600

$98,000 $98,000

Instructions
(a) Prepare closing entries for December 31, 2008.
(b) Determine the balance in M. Trent's capital account after the entries have been posted.

Solution 174  (10 min.)
(a) Computation of Net Income:
   Service revenue $25,000
   Depreciation expense $7,000
   Salary expense 3,000
   Insurance expense 1,600
   Advertising expense 1,400
   Rent expense 800 13,800
   Net Income $11,200
### Solution 174  (cont.)

Dec. 31  
<table>
<thead>
<tr>
<th>Service Revenue</th>
<th>25,000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Income Summary</td>
<td>25,000</td>
</tr>
</tbody>
</table>

(To close revenue account)

31  
<table>
<thead>
<tr>
<th>Income Summary</th>
<th>13,800</th>
</tr>
</thead>
<tbody>
<tr>
<td>Depreciation Expense</td>
<td>7,000</td>
</tr>
<tr>
<td>Advertising Expense</td>
<td>1,400</td>
</tr>
<tr>
<td>Rent Expense</td>
<td>800</td>
</tr>
<tr>
<td>Salary Expense</td>
<td>3,000</td>
</tr>
<tr>
<td>Insurance Expense</td>
<td>1,600</td>
</tr>
</tbody>
</table>

(To close expense accounts)

31  
<table>
<thead>
<tr>
<th>Income Summary</th>
<th>11,200</th>
</tr>
</thead>
<tbody>
<tr>
<td>M. Trent, Capital</td>
<td>11,200</td>
</tr>
</tbody>
</table>

(To close net income to capital)

31  
<table>
<thead>
<tr>
<th>M. Trent, Capital</th>
<th>1,500</th>
</tr>
</thead>
<tbody>
<tr>
<td>M. Trent, Drawing</td>
<td>1,500</td>
</tr>
</tbody>
</table>

(To close drawings to capital)

(b)  

<table>
<thead>
<tr>
<th>M. Trent, Capital</th>
<th>24,000</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>11,200</td>
</tr>
<tr>
<td>Bal.</td>
<td>33,700</td>
</tr>
</tbody>
</table>

### Ex. 175

The adjusted account balances of the Fitness Center at July 31 are as follows:

<table>
<thead>
<tr>
<th>Accounts</th>
<th>Account Balances</th>
<th>Accounts</th>
<th>Account Balances</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash</td>
<td>$11,000</td>
<td>Service Revenue</td>
<td>$100,000</td>
</tr>
<tr>
<td>Accounts Receivable</td>
<td>15,000</td>
<td>Interest Revenue</td>
<td>8,000</td>
</tr>
<tr>
<td>Supplies</td>
<td>4,000</td>
<td>Depreciation Expense</td>
<td>27,000</td>
</tr>
<tr>
<td>Prepaid Insurance</td>
<td>8,000</td>
<td>Insurance Expense</td>
<td>6,000</td>
</tr>
<tr>
<td>Buildings</td>
<td>300,000</td>
<td>Salary Expense</td>
<td>35,000</td>
</tr>
<tr>
<td>Accumulated Depreciation—</td>
<td></td>
<td>Supplies Expense</td>
<td>9,000</td>
</tr>
<tr>
<td>Buildings</td>
<td>120,000</td>
<td>Utilities Expense</td>
<td>12,000</td>
</tr>
<tr>
<td>Accounts Payable</td>
<td>19,000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Utley, Capital</td>
<td>195,000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Utley, Drawing</td>
<td>15,000</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**Instructions**  
Prepare the end of the period closing entries for the Fitness Center.
Solution 175  (10 min.)

July  31  Service Revenue......................................................... 100,000
       Interest Revenue.........................................................  8,000
       Income Summary ........................................................ 108,000
       (To close revenue accounts)

       31  Income Summary .....................................................  89,000
           Depreciation Expense ..............................................  27,000
           Insurance Expense..................................................  6,000
           Salary Expense ......................................................  35,000
           Supplies Expense ....................................................  9,000
           Utilities Expense ...................................................... 12,000
           (To close expense accounts)

       31  Income Summary .....................................................  19,000
           Utley, Capital .........................................................  19,000
           (To close net income to capital)

       31  Utley, Capital ........................................................  15,000
           Utley, Drawing .......................................................  15,000
           (To close drawings to capital)

Ex. 176

The income statement of Gentry’s Shoe Repair is as follows:

GENTRY’S SHOE REPAIR
Income Statement
For the Month Ended April 30, 2008

Revenue
  Shoe Repair Revenue......................................................... $7,500

Expenses
  Salaries Expense ............................................................ $3,400
  Depreciation Expense ......................................................  350
  Utilities Expense .............................................................  400
  Rent Expense .................................................................  600
  Supplies Expense ...........................................................  1,050
  Total Expenses ..................................................................  5,800
  Net Income ....................................................................... $1,700

On April 1, the owner, Lee Gentry, had a capital balance of $12,900. During April, Gentry withdrew $3,000 cash for personal use.

Instructions
(a) Prepare closing entries at April 30.
(b) Prepare an owner's equity statement for the month of April.
Solution 176  (10 min.)

(a) Shoe Repair Revenue ......................................................... 7,500
    Income Summary ........................................................... 7,500

    Income Summary ........................................................... 5,800
    Salaries Expense .......................................................... 3,400
    Depreciation Expense .................................................. 350
    Utilities Expense .......................................................... 400
    Rent Expense ................................................................. 600
    Supplies Expense ........................................................... 1,050

    Income Summary ........................................................... 1,700
    Gentry, Capital ............................................................... 1,700

    Gentry, Capital ............................................................... 3,000
    Gentry, Drawing ............................................................. 3,000

(b) GENTRY’S SHOE REPAIR
    Owner’s Equity Statement
    For the Month Ended April 30, 2008

    L. Gentry, Capital, April 1 $12,900
    Add: Net Income 1,700
    14,600
    Less: Drawings 3,000
    L. Gentry, Capital, April 30 $11,600

Ex. 177

Identify which of the following accounts would appear in a post- closing trial balance.

Accumulated Depreciation  Jackson, Drawing
Depreciation Expense  Service Revenue
Interest Payable  Store Equipment

Solution 177  (3 min.)

The following accounts would appear in a post-closing trial balance:

Accumulated Depreciation
Interest Payable
Store Equipment
Ex. 178

The trial balances of Foley Company follow with the accounts arranged in alphabetic order. Analyze the data and prepare (a) the adjusting entries and (b) the closing entries made by Foley Company.

<table>
<thead>
<tr>
<th>Trial Balances</th>
<th>Unadjusted</th>
<th>Adjusted</th>
<th>Post-Closing</th>
</tr>
</thead>
<tbody>
<tr>
<td>Accounts Payable</td>
<td>$10,000</td>
<td>$10,000</td>
<td>$10,000</td>
</tr>
<tr>
<td>Accounts Receivable</td>
<td>2,200</td>
<td>3,200</td>
<td>3,200</td>
</tr>
<tr>
<td>Accumulated Depreciation</td>
<td>13,000</td>
<td>17,000</td>
<td>17,000</td>
</tr>
<tr>
<td>Advertising Expense</td>
<td>0</td>
<td>16,300</td>
<td>0</td>
</tr>
<tr>
<td>Cash</td>
<td>60,000</td>
<td>60,000</td>
<td>60,000</td>
</tr>
<tr>
<td>Depreciation Expense</td>
<td>0</td>
<td>4,000</td>
<td>0</td>
</tr>
<tr>
<td>Equipment</td>
<td>75,000</td>
<td>75,000</td>
<td>75,000</td>
</tr>
<tr>
<td>Foley, Capital</td>
<td>82,200</td>
<td>82,200</td>
<td>102,400</td>
</tr>
<tr>
<td>Foley, Drawing</td>
<td>11,000</td>
<td>11,000</td>
<td>0</td>
</tr>
<tr>
<td>Prepaid Advertising</td>
<td>17,800</td>
<td>1,500</td>
<td>1,500</td>
</tr>
<tr>
<td>Prepaid Rent</td>
<td>15,000</td>
<td>11,000</td>
<td>11,000</td>
</tr>
<tr>
<td>Rent Expense</td>
<td>0</td>
<td>4,000</td>
<td>0</td>
</tr>
<tr>
<td>Service Revenue</td>
<td>96,000</td>
<td>105,000</td>
<td>0</td>
</tr>
<tr>
<td>Supplies</td>
<td>3,200</td>
<td>700</td>
<td>700</td>
</tr>
<tr>
<td>Supplies Expense</td>
<td>2,000</td>
<td>4,500</td>
<td>0</td>
</tr>
<tr>
<td>Unearned Revenue</td>
<td>23,000</td>
<td>15,000</td>
<td>15,000</td>
</tr>
<tr>
<td>Wages Expense</td>
<td>38,000</td>
<td>45,000</td>
<td>0</td>
</tr>
<tr>
<td>Wages Payable</td>
<td>0</td>
<td>7,000</td>
<td>7,000</td>
</tr>
</tbody>
</table>

Solution 178  (20 min.)

(a) Adjusting Entries

<table>
<thead>
<tr>
<th>Account Description</th>
<th>Adjusted</th>
<th>Post-Closing</th>
</tr>
</thead>
<tbody>
<tr>
<td>Depreciation Expense</td>
<td>4,000</td>
<td></td>
</tr>
<tr>
<td>Accumulated Depreciation</td>
<td>4,000</td>
<td></td>
</tr>
<tr>
<td>Advertising Expense</td>
<td>16,300</td>
<td></td>
</tr>
<tr>
<td>Prepaid Advertising</td>
<td>16,300</td>
<td></td>
</tr>
<tr>
<td>Unearned Revenue</td>
<td>8,000</td>
<td></td>
</tr>
<tr>
<td>Service Revenue</td>
<td>8,000</td>
<td></td>
</tr>
<tr>
<td>Accounts Receivable</td>
<td>1,000</td>
<td></td>
</tr>
<tr>
<td>Service Revenue</td>
<td>1,000</td>
<td></td>
</tr>
<tr>
<td>Rent Expense</td>
<td>4,000</td>
<td></td>
</tr>
<tr>
<td>Prepaid Rent</td>
<td>4,000</td>
<td></td>
</tr>
<tr>
<td>Supplies Expense</td>
<td>2,500</td>
<td></td>
</tr>
<tr>
<td>Supplies</td>
<td>2,500</td>
<td></td>
</tr>
<tr>
<td>Wages Expense</td>
<td>7,000</td>
<td></td>
</tr>
<tr>
<td>Wages Payable</td>
<td>7,000</td>
<td></td>
</tr>
</tbody>
</table>
Solution 178  (cont.)

(b) Closing Entries

<table>
<thead>
<tr>
<th>Account</th>
<th>Debit</th>
<th>Credit</th>
</tr>
</thead>
<tbody>
<tr>
<td>Service Revenue</td>
<td>105,000</td>
<td></td>
</tr>
<tr>
<td>Income Summary</td>
<td></td>
<td>105,000</td>
</tr>
<tr>
<td>Income Summary</td>
<td></td>
<td>73,800</td>
</tr>
<tr>
<td>Advertising Expense</td>
<td></td>
<td>16,300</td>
</tr>
<tr>
<td>Depreciation Expense</td>
<td></td>
<td>4,000</td>
</tr>
<tr>
<td>Rent Expense</td>
<td></td>
<td>4,000</td>
</tr>
<tr>
<td>Supplies Expense</td>
<td></td>
<td>4,500</td>
</tr>
<tr>
<td>Wages Expense</td>
<td></td>
<td>45,000</td>
</tr>
<tr>
<td>Income Summary</td>
<td></td>
<td>31,200</td>
</tr>
<tr>
<td>Foley, Capital</td>
<td></td>
<td>31,200</td>
</tr>
<tr>
<td>Foley, Drawing</td>
<td></td>
<td>11,000</td>
</tr>
</tbody>
</table>

Ex. 179

Indicate the proper sequence of the steps in the accounting cycle by placing numbers 1-8 in the blank spaces.

____ a. Analyze business transactions.

____ b. Journalize and post adjusting entries.

____ c. Journalize and post closing entries.

____ d. Journalize the transactions.

____ e. Prepare a post-closing trial balance.

____ f. Prepare a worksheet.

____ g. Prepare financial statements.

____ h. Post to ledger accounts.

Solution 179  (4 min.)

a. 1  e. 8
b. 6  f. 4
c. 7  g. 5
d. 2  h. 3
Ex. 180
Prepare the necessary correcting entry for each of the following.

a. A collection on account of $370 from a customer was credited to Accounts Receivable $730 and debited to Cash $730.
b. The purchase of supplies on account for $250 was recorded as a debit to Equipment $250 and a credit to Accounts Payable $250.

Solution 180  (5 min.)

a. Accounts Receivable........................................................................ 360
   Cash........................................................................................ 360
b. Supplies ........................................................................................... 250
   Equipment ............................................................................... 250

Ex. 181
An examination of the accounts of Shaw Company for the month of June revealed the following errors after the transactions were journalized and posted.
1. A check for $750 from R. Linton, a customer on account, was debited to Cash $750 and credited to Service Revenue, $750.
2. A payment for Advertising Expense costing $420 was debited to Utilities Expense, $240 and credited to Cash $240.
3. A bill for $840 for Office Supplies purchased on account was debited to Office Equipment, $480 and credited to Accounts Payable $480.

Instructions
Prepare correcting entries for each of the above assuming the erroneous entries are not reversed. Explain how the transaction as originally recorded affected net income for the month of June.

Solution 181  (10 min.)

1. Service Revenue.................................................................................... 750
   Accounts Receivable........................................................................ 750
   (To correct error in recording collection of accounts receivable)
   The transaction as originally recorded overstated net income by $750.

2. Advertising Expense .............................................................................. 420
   Utilities Expense............................................................................ 240
   Cash.............................................................................................. 180
   (To correct errors in recording advertising expense)
   The transaction as originally recorded overstated net income by $180.
Solution 181  (cont.)

3. Office Supplies .................................................................  840  
   Office Equipment .........................................................  480  
   Accounts Payable .......................................................  360  
   (To correct error in recording office supplies)

   The transaction as originally recorded had no effect on net income.

Ex. 182

As Jeff Wills was doing his year-end accounting, he noticed that the bookkeeper had made errors in recording several transactions. The erroneous transactions are as follows:

(a) A check for $700 was issued for goods previously purchased on account. The bookkeeper debited Accounts Receivable and credited Cash for $700.
(b) A check for $380 was received as payment on account. The bookkeeper debited Accounts Payable for $830 and credited Accounts Receivable for $830.
(c) When making the entry to record the year's depreciation expense, the bookkeeper debited Accumulated Depreciation for $1,000 and credited Cash for $1,000.
(d) When accruing interest on a note payable, the bookkeeper debited Interest Receivable for $200 and credited Interest Payable for $200.

Instructions
   Prepare the appropriate correcting entries. (Do not reverse the original entries.)

Solution 182  (5 min.)

(a) Accounts Payable ..........................................................  700  
    Accounts Receivable ................................................  700

(b) Cash .................................................................  380  
    Accounts Receivable .............................................  450  
    Accounts Payable ...............................................  830

(c) Cash .................................................................  1,000  
    Depreciation Expense ........................................  1,000  
    Accumulated Depreciation .................................  2,000

(d) Interest Expense .....................................................  200  
    Interest Receivable .............................................  200
Ex. 183

Jon Scott, CPA, was asked by Jeff Pine to review the accounting records and prepare the financial statements for his upholstering shop. Jon reviewed the records and found three errors.
1. Cash paid on accounts payable for $930 was recorded as a debit to Accounts Payable $390 and a credit to Cash $390.
2. The purchase of supplies on account for $500 was debited to Equipment $500 and credited to Accounts Payable $500.
3. Jeff withdrew $1,200 of cash and the bookkeeper debited Accounts Receivable for $120 and credited Cash $120.

Instructions
Prepare an analysis of each error showing the
(a) incorrect entry.
(b) correct entry.
(c) correcting entry.

Solution 183 (15 min.)

1. (a) Incorrect Entry
   Accounts Payable ......................................................... 390
   Cash ................................................................. 390

   (b) Correct Entry
   Accounts Payable ......................................................... 930
   Cash ................................................................. 930

   (c) Correcting Entry
   Accounts Payable ......................................................... 540
   Cash ................................................................. 540

2. (a) Incorrect Entry
   Equipment ................................................................. 500
   Accounts Payable ......................................................... 500

   (b) Correct Entry
   Supplies ................................................................. 500
   Accounts Payable ......................................................... 500

   (c) Correcting Entry
   Supplies ................................................................. 500
   Equipment ................................................................. 500

3. (a) Incorrect Entry
   Accounts Receivable ......................................................... 120
   Cash ................................................................. 120

   (b) Correct Entry
   J. Pine, Drawing ................................................................. 1,200
   Cash ................................................................. 1,200

   (c) Correcting Entry
   J. Pine, Drawing ................................................................. 1,200
   Accounts Receivable ......................................................... 120
   Cash ................................................................. 1,080
Ex. 184

Compute the dollar amount of current assets based on the following account balances.

- Accounts Receivable $16,000
- Accumulated Depreciation 27,000
- Cash 24,000
- Equipment 93,000
- Prepaid Rent 7,000
- Short-term Investments 15,000

**Solution 184** (4 min.)

Current assets amount = $62,000 ($16,000 + $24,000 + $7,000 + $15,000)

Ex. 185

The financial statement columns of the worksheet for Audio Concepts at December 31, 2008, are as follows:

<table>
<thead>
<tr>
<th>AUDIO CONCEPTS</th>
<th>Worksheet</th>
<th>For the Year Ended December 31, 2008</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td><strong>Income Statement</strong></td>
<td><strong>Balance Sheet</strong></td>
</tr>
<tr>
<td></td>
<td><strong>Debit</strong></td>
<td><strong>Credit</strong></td>
</tr>
<tr>
<td>Cash</td>
<td>15,000</td>
<td></td>
</tr>
<tr>
<td>Accounts Receivable</td>
<td>7,000</td>
<td></td>
</tr>
<tr>
<td>Supplies</td>
<td>4,000</td>
<td></td>
</tr>
<tr>
<td>Prepaid Insurance</td>
<td>6,000</td>
<td></td>
</tr>
<tr>
<td>Audio Equipment</td>
<td>209,000</td>
<td></td>
</tr>
<tr>
<td>Accumulated Depreciation—Audio Equipment</td>
<td>29,000</td>
<td></td>
</tr>
<tr>
<td>Accounts Payable</td>
<td>19,000</td>
<td></td>
</tr>
<tr>
<td>Note Payable</td>
<td>70,000</td>
<td></td>
</tr>
<tr>
<td>Salaries Payable</td>
<td>3,000</td>
<td></td>
</tr>
<tr>
<td>J. Green, Capital</td>
<td>112,000</td>
<td></td>
</tr>
<tr>
<td>J. Green, Drawing</td>
<td>14,000</td>
<td></td>
</tr>
<tr>
<td>Audio Revenue</td>
<td>123,000</td>
<td></td>
</tr>
<tr>
<td>Advertising Expense</td>
<td>21,000</td>
<td></td>
</tr>
<tr>
<td>Depreciation Expense</td>
<td>12,000</td>
<td></td>
</tr>
<tr>
<td>Insurance Expense</td>
<td>3,000</td>
<td></td>
</tr>
<tr>
<td>Rent Expense</td>
<td>17,000</td>
<td></td>
</tr>
<tr>
<td>Salaries Expense</td>
<td>42,000</td>
<td></td>
</tr>
<tr>
<td>Supplies Expense</td>
<td>6,000</td>
<td></td>
</tr>
<tr>
<td>Totals</td>
<td>101,000</td>
<td>123,000</td>
</tr>
<tr>
<td>Net Income</td>
<td>22,000</td>
<td></td>
</tr>
<tr>
<td></td>
<td>123,000</td>
<td>123,000</td>
</tr>
</tbody>
</table>

**Instructions**

(a) Calculate the balance of J. Green, Capital that would appear on a balance sheet at December 31, 2008.

(b) Prepare a classified balance sheet for Audio Concepts at December 31, 2008 assuming the note payable is a long-term liability.
Solution 185  

(a) J. Green, Capital, January 1 $112,000
   Add: Net Income 22,000
   Less: Drawings 14,000
   J. Green, Capital, December 31 $120,000

(b) AUDIO CONCEPTS
   Balance Sheet
   December 31, 2008

<table>
<thead>
<tr>
<th>Assets</th>
<th>$</th>
</tr>
</thead>
<tbody>
<tr>
<td>Current assets</td>
<td></td>
</tr>
<tr>
<td>Cash ...........................................</td>
<td>15,000</td>
</tr>
<tr>
<td>Accounts receivable................................</td>
<td>7,000</td>
</tr>
<tr>
<td>Supplies .......................................</td>
<td>4,000</td>
</tr>
<tr>
<td>Prepaid insurance ................................</td>
<td>6,000</td>
</tr>
<tr>
<td>Total current assets</td>
<td>32,000</td>
</tr>
<tr>
<td>Property, plant, and equipment</td>
<td></td>
</tr>
<tr>
<td>Audio equipment ..................................</td>
<td>209,000</td>
</tr>
<tr>
<td>Less: Accumulated depreciation—audio equipment</td>
<td>29,000</td>
</tr>
<tr>
<td>Total assets</td>
<td>212,000</td>
</tr>
</tbody>
</table>

| Liabilities and Owner’s Equity               |       |
| Current liabilities                         |       |
| Accounts payable                            | 19,000|
| Salaries payable                            | 3,000 |
| Total current liabilities                   | 22,000|
| Long-term liabilities                       |       |
| Note payable                                | 70,000|
| Total liabilities                           | 92,000|
| Owner’s equity                              |       |
| J. Green, Capital                           | 120,000|
| Total liabilities and owner’s equity        | 212,000|
Ex. 186

The financial statement columns of the worksheet for Melton Company as of December 31, 2008 are as follows:

MELTON COMPANY
Worksheet
For the Year Ended December 31, 2008

<table>
<thead>
<tr>
<th>Accounts</th>
<th>Debit</th>
<th>Credit</th>
<th>Debit</th>
<th>Credit</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash</td>
<td>20,000</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Accounts Receivable</td>
<td>6,000</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Supplies</td>
<td>4,500</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Prepaid Insurance</td>
<td>7,000</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Equipment</td>
<td>50,000</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Accumulated Depreciation</td>
<td></td>
<td>4,800</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Patents</td>
<td>7,500</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Accounts Payable</td>
<td>23,500</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Bonds Payable (due 2012)</td>
<td>18,000</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Melton, Capital</td>
<td>46,000</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Melton, Drawing</td>
<td>4,200</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Service Revenue</td>
<td></td>
<td>25,400</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Salaries Expense</td>
<td>5,200</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Depreciation Expense</td>
<td>4,800</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Insurance Expense</td>
<td>5,000</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Interest Expense</td>
<td>3,500</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Totals</td>
<td>18,500</td>
<td>25,400</td>
<td>99,200</td>
<td>92,300</td>
</tr>
<tr>
<td>Net Income</td>
<td>6,900</td>
<td></td>
<td>6,900</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Income Statement</th>
<th>Balance Sheet</th>
</tr>
</thead>
<tbody>
<tr>
<td>Debit</td>
<td>Debit</td>
</tr>
<tr>
<td>Credit</td>
<td>Credit</td>
</tr>
<tr>
<td>25,400</td>
<td>99,200</td>
</tr>
<tr>
<td>99,200</td>
<td>99,200</td>
</tr>
</tbody>
</table>

**Instructions**

Prepare a classified balance sheet for Melton Company.

**Solution 186** (15 min.)

MELTON COMPANY
Balance Sheet
December 31, 2008

**Assets**

**Current assets**
- Cash .......................................................... $20,000
- Accounts receivable .................................. 6,000
- Supplies .................................................. 4,500
- Prepaid insurance .................................... 7,000
  Total current assets ................................ 37,500

**Property, Plant, and Equipment**
- Equipment ................................................ $50,000
  Less: Accumulated depreciation—equipment ..... 4,800
  45,200

**Intangible assets**
- Patents .................................................... 7,500

Total assets .............................................. $90,200
Solution 186  (cont.)

<table>
<thead>
<tr>
<th>Liabilities and Owner’s Equity</th>
</tr>
</thead>
<tbody>
<tr>
<td>Accounts payable</td>
</tr>
<tr>
<td>Bonds payable</td>
</tr>
<tr>
<td>Total liabilities</td>
</tr>
<tr>
<td>Melton, Capital</td>
</tr>
<tr>
<td>Total liabilities and owner’s equity</td>
</tr>
</tbody>
</table>

* Melton, Capital = $48,700  ($46,000 + $6,900 – $4,200).

Ex. 187

Reisner Company prepared the following adjusting entries at year end on December 31, 2007:

(a) Interest Expense ................................................................. 200
    Interest Payable ............................................................... 200

(b) Unearned Revenue .............................................................. 1,500
    Service Revenue .............................................................. 1,500

(c) Insurance Expense ............................................................. 1,200
    Prepaid Insurance ............................................................. 1,200

(d) Interest Receivable ............................................................ 100
    Interest Revenue ............................................................. 100

(e) Supplies Expense .............................................................. 250
    Supplies .......................................................... 250

(f) Wages Expense ................................................................. 3,000
    Wages Payable .............................................................. 3,000

In an effort to minimize errors in recording transactions, Reisner Company utilizes reversing entries.

Instructions
Prepare reversing entries on January 1, 2008, for the adjusting entries given where appropriate.
Reversing entries are appropriate for adjusting entries related to accrued revenues and accrued expenses. Three of the entries given are accruals and need to be reversed.

(a) Reverse the entry to accrue interest expense.

\[
\begin{align*}
\text{Interest Payable} & \quad 200 \\
\text{Interest Expense} & \quad 200
\end{align*}
\]

(d) Reverse the entry to accrue interest revenue.

\[
\begin{align*}
\text{Interest Revenue} & \quad 100 \\
\text{Interest Receivable} & \quad 100
\end{align*}
\]

(f) Reverse the entry to accrue wages expense.

\[
\begin{align*}
\text{Wages Payable} & \quad 3,000 \\
\text{Wages Expense} & \quad 3,000
\end{align*}
\]

On December 31, 2008 the adjusted trial balance of the Dixon Personnel Agency shows the following selected data:

- Commission Receivable, $7,000
- Commission Revenue, $70,000
- Interest Expense, $10,500
- Interest Payable, $2,500
- Utilities Expense, $4,800
- Accounts Payable, $2,400

Analysis indicates that adjusting entries were made for (a) $7,000 of employment commission revenue earned but not billed, (b) $2,500 of accrued but unpaid interest, and (c) $2,400 of utilities expense accrued but not paid.

Instructions
(a) Prepare the closing entries at December 31, 2008.
(b) Prepare the reversing entries on January 1, 2009.
(c) Enter the adjusted trial balance data in T-accounts. Post the entries in (a) and (b) and rule and balance the accounts.
(d) Prepare the entries to record (1) the collection of the accrued commission on January 8, (2) payment of the utility bill on January 10, and (3) payment of all the interest due ($3,000) on January 15.
(e) Post the entries in (d) to the temporary accounts.
(f) What is the interest expense for the month of January 2009?

Solution 188 (25 min.)

(a) (1) Commission Revenue ........................................ 70,000

\[
\begin{align*}
\text{Income Summary} & \quad 70,000
\end{align*}
\]

(2) Income Summary .................................................... 15,300

\[
\begin{align*}
\text{Interest Expense} & \quad 10,500 \\
\text{Utilities Expense} & \quad 4,800
\end{align*}
\]
aSolution 188  (cont.)

(3) Income Summary ........................................................................ 54,700
    Dixon, Capital ............................................................................. 54,700

(b) (1) Commission Revenue ............................................................. 7,000
    Commission Receivable ............................................................. 7,000

(2) Interest Payable ........................................................................ 2,500
    Interest Expense .......................................................................... 2,500

(3) Accounts Payable ................................................................. 2,400
    Utilities Expense ......................................................................... 2,400

(c) and (e)

<table>
<thead>
<tr>
<th>Commission Receivable</th>
<th>Commission Revenue</th>
</tr>
</thead>
<tbody>
<tr>
<td>(A) 7,000</td>
<td>(R) 7,000</td>
</tr>
<tr>
<td>(C) 70,000</td>
<td>(A) 70,000</td>
</tr>
<tr>
<td>(R) 7,000</td>
<td>(D) 7,000</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Interest Expense</th>
<th>Interest Payable</th>
</tr>
</thead>
<tbody>
<tr>
<td>(A) 10,500</td>
<td>(C) 10,500</td>
</tr>
<tr>
<td>(D) 3,000</td>
<td>(R) 2,500</td>
</tr>
<tr>
<td>(R) 2,500</td>
<td>(A) 2,500</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Utilities Expense</th>
<th>Accounts Payable</th>
</tr>
</thead>
<tbody>
<tr>
<td>(A) 4,800</td>
<td>(C) 4,800</td>
</tr>
<tr>
<td>(D) 2,400</td>
<td>(R) 2,400</td>
</tr>
<tr>
<td>(R) 2,400</td>
<td>(A) 2,400</td>
</tr>
</tbody>
</table>

Legend
A = Adjusted trial balance amount
C = Closing
R = Reversing
D = January Transaction entries

(d) (1) Jan. 8 Cash ........................................................................ 7,000
    Commission Revenue ............................................................. 7,000

(2) Jan. 10 Utilities Expense ..................................................... 2,400
    Cash ..................................................................................... 2,400

(3) Jan. 15 Interest Expense ..................................................... 3,000
    Cash ..................................................................................... 3,000

(f) Interest expense for January is $500 ($3,000 – $2,500).
Ex. 189

Transaction and adjustment data for Gore Company for the calendar year end is as follows:

1. December 24 (initial salary entry): $12,000 of salaries earned between December 1 and December 24 are paid.

2. December 31 (adjusting entry): Salaries earned between December 25 and December 31 are $2,000. These will be paid in the January 8 payroll.

3. January 8 (subsequent salary entry): Total salary payroll amounting to $7,000 was paid.

Instructions

Prepare two sets of journal entries as specified below. The first set of journal entries should assume that the company does not use reversing entries, and the second set should assume that reversing entries are utilized by the company.

Assume no reversing entries

(a) Initial Salary Entry

Dec. 24

(b) Adjusting Entry

Dec. 31

(c) Closing Entry

Dec. 31

(d) Reversing Entry

Jan. 1

(e) Subsequent Salary Entry

Jan. 8

Assume reversing entries

(a) Initial Salary Entry

Dec. 24

(b) Adjusting Entry

Dec. 31

(c) Closing Entry

Dec. 31

(d) Reversing Entry

Jan. 1

(e) Subsequent Salary Entry

Jan. 8
Assume no reversing entries

(a) **Initial Salary Entry**
Dec. 24
Salaries Expense 12,000  Salaries Expense 12,000
Cash 12,000  Cash 12,000

(b) **Adjusting Entry**
Dec. 31
Salaries Expense 2,000  Salaries Expense 2,000
Salaries Payable 2,000  Salaries Payable 2,000

(c) **Closing Entry**
Dec. 31
Income Summary 14,000  Income Summary 14,000
Salaries Expense 14,000  Salaries Expense 14,000

(d) **Reversing Entry**
Jan. 1
None  Salaries Payable 2,000
Salaries Expense 2,000

(e) **Subsequent Salary Entry**
Jan. 8
Salaries Payable 2,000  Salaries Expense 7,000
Salaries Expense 5,000  Cash 7,000
Cash 7,000
COMPLETION STATEMENTS

190. The first step in preparing a worksheet is to prepare a ______________ from the general ledger accounts.

191. The account balances appearing in the adjusted trial balance columns are extended to the ______________ columns and the ______________ columns.

192. The process of transferring net income (or loss) for the period to Owner's Capital is accomplished by making ______________ entries.

193. At the end of an accounting period, all revenue and expense accounts are closed to a temporary account called ______________.

194. The Owner's Drawing account is closed to the ______________ account at the end of the accounting period.

195. After all closing entries have been journalized and posted, the final step in the accounting cycle is to prepare a ______________ trial balance.

196. The preparation of a ______________ and ______________ entries are two optional steps in the accounting cycle.

197. Two permanent accounts that are part of the stockholder's equity in a corporation are ______________ and ______________.

198. The four major classifications of assets in a classified balance sheet are: ______________, ______________, ______________ and ______________.

199. The ______________ of a company is the average time that it takes to purchase inventory, sell it on account, and then collect cash from customers.

200. Assets that do not have a physical substance yet often are very valuable are called ______________ assets.

201. Liabilities are generally classified as either ______________ or ______________ on a classified balance sheet.

**Answers to Completion Statements**

190. trial balance  
191. income statement, balance sheet  
192. closing  
193. Income Summary  
194. Owner's Capital  
195. post-closing  
196. worksheet, reversing  
197. Capital Stock, Retained Earnings  
198. Current Assets; Long-Term Investments; Property, Plant, and Equipment; Intangible Assets  
199. operating cycle  
200. intangible  
201. current, long-term
MATCHING

202. Match the items below by entering the appropriate code letter in the space provided.

A. Worksheet  F. Capital Stock
B. Permanent accounts  G. Current assets
C. Closing entries  H. Operating cycle
D. Income Summary  I. Long-term liabilities
E. Reversing entry  J. Correcting entries

___  1. Obligations that a company expects to pay after one year.
___  2. A part of owners’ equity in a corporation.
___  3. An optional tool which facilitates the preparation of financial statements.
___  4. A temporary account used in the closing process.
___  5. Balance sheet accounts whose balances are carried forward to the next period.
___  6. The average time that it takes to go from cash to cash in producing revenues.
___  7. Entries to correct errors made in recording transactions.
___  8. The exact opposite of an adjusting entry made in a previous period.
___  9. Entries at the end of an accounting period to transfer the balances of temporary accounts to a permanent owner’s equity account.
___ 10. Assets that a company expects to pay or convert to cash or use up within one year.

Answers to Matching

1. I  6. H
2. F  7. J
3. A  8. E
4. D  9. C
5. B  10. G
SHORT-ANSWER ESSAY QUESTIONS

S-A E 203
A worksheet is an optional working tool used by accountants to facilitate the preparation of financial statements. Consider the steps followed in preparing a worksheet. How does the use of a worksheet assist the accountant. Could financial statements be prepared without a worksheet? Evaluate how the process would differ. Consider factors such as timeliness, accuracy, and efficiency in your evaluation.

Solution 203
The worksheet organizes the accountant's work in preparing the income statement and the balance sheet. The worksheet contains the general ledger trial balance, the adjusting entries, and an adjusted trial balance (if 10-column). The columns for these trial balances and entries allow the accountant to prove the equality of the debits and credits at each step of the process. From the adjusted trial balance the balance sheet and income statement amounts are obtained and entered in the appropriate columns.

Preparing financial statements without the use of a worksheet would be less organized and probably more prone to errors. And, if errors are made, they will probably be less easy to detect and locate, and, therefore, less efficient and more time consuming.

S-A E 204
Journalizing and posting closing entries is a required step in the accounting cycle. Discuss why it is necessary to close the books at the end of an accounting period. If closing entries were not made, how would the preparation of financial statements be affected?

Solution 204
Closing entries are prepared to close the income statement accounts (the temporary accounts) of the current year in order to start the next year. Income statement (temporary) accounts are cumulative in nature but only for a year. The closing entries are what separate the accounting periods. The next year's accumulation of income statement data can begin once the accounts are cleared and the balances transferred through the closing entries to owner's equity.

S-A E 205
Give the definition of current assets and current liabilities and provide two examples of each.

Solution 205
Current assets are assets that a company expects to convert to cash or use up within one year. Examples of current assets include short-term investments, accounts receivable, and inventory. Current liabilities are obligations that the company is to pay within the current year. Examples of current liabilities are accounts payable, wages payable, and taxes payable.
S-A E 206 (Ethics)

Under Protection provides underground storage facilities for companies desiring off-site storage of sensitive documents, computer records, and other items. They have developed a sophisticated surveillance and security system which they initially used in their own facilities, and have recently started to market elsewhere as well.

The underground storage facilities are made from natural caves in some instances (reinforced and modified as appropriate) and from excavations of natural rock formations in others. The land was purchased over ten years ago for a total of $2.5 million. The modifications have cost approximately $15 million more. The company has never depreciated its storage facilities because the market value of the property has continued to rise. Presently, the market price is between $30 and $40 million.

Tom Carr, a new accounting manager, questioned this depreciation policy. Ken Hines, the controller, has told him that he needn't worry about it. For one thing, he says, this is really a special form of Land account, which should not be depreciated at all. For another, this is a privately held company, and so they don't need to worry about misleading investors. All the owners know about and approve the depreciation policy.

Required:
What are the ethical issues in this situation?

Solution 206

The ethical issue is one of integrity. Even though the storage facilities are underground, that does not mean that they can be accounted for simply as land. The structural improvements and surveillance mechanisms will not last forever, and therefore their cost should be allocated over the periods that are benefited. Net income is being overstated because the depreciation expense, at zero, is being understated.

A second issue is the harm that may be incurred by outside parties because of the misrepresentation in the financial statements. Even though the owners know about the (lack of) depreciation, they may still use their financial statements to obtain loans. Private investors and bankers should be able to rely on the financial statements.

A third issue is that of the integrity of the accountants themselves. If they are being asked to ignore a basic principle of accounting so openly now, they should certainly ask themselves what lies ahead.

S-A E 207 (Communication)

You have recently started to work for Trent Holmes, manufacturers of cemetery markers and monuments. During your first month at work, you inadvertently recorded as revenue, about $3,000 of prepayments from Wynn Company. The financial statements had been released within the company when you discovered your error. The month-end closing had not been completed, however, and you were able to correct the accounts without incident.

Required:
Prepare a short note to accompany the re-released financial statements explaining the mistake.
MEMO

TO: Department Managers
FROM: Lisa Cross, Accounting
RE: Month-End Reports

****ATTACHED FINANCIAL STATEMENTS REPLACE THOSE ISSUED JULY 5****

*****DESTROY ALL EARLIER COPIES OF JUNE 30 FINANCIAL STATEMENTS****

An error was made in the recording of Wynn Company's prepayment. The entire $3,000 was recorded as revenue. Since Wynn's order has not been completed or shipped, it should have been recorded as unearned revenue, which is a liability. Note that net income is reduced to only $15,000 as a result of this change.

If you have sent any of your summary reports to corporate headquarters, please contact the Accounting Department immediately for correction codes.

I am sincerely sorry for any inconvenience or delays caused by this error.

(signature)