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Fundamentals of financial accounting 4th edition pdf

Chapter 04 Adjustments, Financial Statements and Financial Results True / False Questions 1. As a company uses commissions, an adjustment should be made to reduce an asset account and increase an expense account. True False 2. The purpose of adjusting the entries is to transfer net income and dividends to re-earnings. True False 3. A contra account is added to the account that compensates. True False 4. The amount charged for a good or service provided to a customer in the account is recorded only after payment. True False 5. The carrying amount of an asset is an approximation of the market value of the assets. True False 6. You can accidentally include a contra account of \$20,000 in the same column of your test balance as the account that compensates. All other things are equal, your debit and credit column totals will vary by \$40,000. True False 7. Corporate income taxes cannot be calculated until all other adjustments are made. True False 8. The adjusted balance is completed to check that charges are still equal credits after the results statement has been prepared. True false 9. The amounts of all accounts indicated in the balance sheet can be obtained from the adjusted balance sheet. True false 10. One of the purposes of closing entries is to reset the balances in all fixed asset, liability, income, and expense accounts to start the next accounting period. True false 11. A deferral adjustment can include an asset and an expense account. True false 12. Depreciation is a measure of the decrease in the market value of an asset. True False 13. After the closing entries are posted, all revenue accounts and expense accounts are zero and the re-earnings account has been charged for \$4,000. That means the company had a net income of \$4,000. True false 14. The closing procedure shall include a transfer of the balance of the declared dividend account to the re-account. True False 15. If a company does not record equipment depreciation costs for a period, the financial statements will show total assets overvalued and total shareholders' equity undervalued in the balance sheet. True False 16. The balance after closure should include only permanent accounts. True False 17. All asset accounts, all liabilities accounts, contributed capital and re-earnings accounts are called permanent accounts. True False 18. A company forgot to make registration for the recording of wages paid but not paid at the end of the period. This would devalue total liabilities and overestimate the re-earnings on the balance sheet. True false 19. Prepaid expense accounts are reported as assets in the balance sheet. True False 20. Customizing entries often involves cash. False multiple choice questions 21. Which of the following suggestions about the types of customization records is true? A. An adjustment on an accrual basis that increases an asset will weight. B. A deferral adjustment that reduces an asset will include an increase in an expense. C. An accrual adjustment that increases an expense will include an increase in assets. D. A deferral adjustment that increases a contra account will include an increase in an asset. 22. Which of the following statements regarding the adjustment of records is not true? A. Adjustments are required to ensure that the accounting system includes all revenue and expenditure for the period. B. Adjustments shall contribute to ensuring that the relevant accounts in the balance sheet and profit and loss statement are up-to-date and complete. C. Adjusting entries often affects the cash account. D. Adjusting entries generally include a balance sheet and a profit and loss account. 23. The carrying amount of the equipment shall be equal to which of the following? A. Equipment cost plus accumulated depreciation. B. Accumulated depreciation less depreciation costs. C. Equipment cost less accumulated depreciation. D. Accumulated depreciation plus depreciation costs. 24. Which of the following statements on the need for adjustments is not true? A. Without adjustments, the financial statements present an incomplete and misleading picture of the company. B. Adjustment entries are intended to change operating results to reflect management objectives for operational performance. C. Adjustments help the financial statements to present the best picture of whether the companies' activities were profitable for the period. D. Adjustments help the financial statements to present the financial resources that the company holds and owes at the end of the period. 25. Which of the following balance statements is correct? A. The adjusted balance shall be drawn up after the financial statements to verify that the figures are accurate. B. The primary purpose of the balance sheet after closure is to see if the revenue is greater than the costs. C. The adjusted balance is a check that the ledger entries are still in balance after all adjustments have been posted to the accounts. D. The total balance debit column after closure is the amount that will be shown as Total Assets in the Balance Sheet. 26. Which of the following statements on the presentation of the balance sheet is correct? A. The adjusted balance shows the end-of-year balance for new earnings. B. The adjusted balance shows the balance of accounts at the same level of detail as the presentation of the financial statements. C. The series of accounts are assets, liabilities, shareholders' equity, dividends, revenues and expenses. D. The custom displays all billing and credit entries in all ledger accounts. 27. Which of the following statements on the financial statements and balance are correct? A. The financial statements shall be drawn up only after the adjusted balance sheet has been Credits. B. A balance should be drawn up after the closure before the closure of the provisional accounts. C. The adjusted balance shall reflect the amount of re-earnings shown in the balance sheet. D. A post-closure balance lists all accounts shown in the Income Statement. 28. Which of the following statements about timing issues related to closing entries is true? A. Closing entries are recorded at the end of each reporting period, which could be monthly, quarterly or annual. B. After posting the closing entries, the balance of the profit and loss accounts will be zero. C. Closing entries are reset with the balance sheets of the permanent accounts on the balance sheet. D. After posting the closing entries, the only temporary account with balance is the declared Dividend account. 29. Which of the following statements concerning the effect of the net loss on the closure process is true? A. If a company has a net loss during the current accounting period, then the endings of the re-earnings will be less than the initial re-earnings. B. When preparing closing entries, the contributed capital is charged if a company has a net loss. C. If a company has a net loss, the closing entry will include charges to revenue accounts, credits to expense accounts and credit to re-earnings. D. If a company has a net loss, the amount of revenue to be closed will be greater than the amount of expenses that will be closed during the closing process. 30. If an expenditure has been incurred but will be paid later, then: A. nothing is recorded in the financial statements. B. a civil liability account is created or increased and an expenditure is recorded. C. an asset account is reduced or eliminated and an expenditure is recorded. D. revenue and expenses are collected. 31. If certain assets are partially disappeared during the accounting period, then: A. nothing is recorded in the financial statements until it is fully disappeared. B. a civil liability account shall be reduced or eliminated and an expenditure recorded. C. an asset account is reduced or eliminated and an expenditure is recorded. D. nothing is recorded in the financial statements until they are replaced or replenished. 32. A company makes a deferral adjustment that reduces an obligation. This must mean: A. an expense account is reduced by the same amount. B. an expense account shall be increased by the same amount. C. the revenue account shall be increased by the same amount. D. the revenue account is reduced. 33. A significant difference between the adjustments and accruals are: A. Deferral adjustments relate to transactions previously recorded and accruals relate to events not previously recorded. B. postponements shall be made after taxes and adjustments on an accrual basis before taxes. C. deferral adjustments shall be made annually and adjustments on an accrual basis shall be made on a monthly basis. D. postponements estimates of future events and adjustments on an accrual basis are not. A significant difference between deferral and accrual adjustments is: A. Accrual adjustments affect profit and loss accounts and deferred adjustments affect balance sheet accounts. B. Deferral adjustments increase net income and accrual adjustments reduce net income. C. Postponements shall be made in the context of accounting and adjustments to accruals shall be made in the context of accrual accounting. D. accounts affected by an accrual adjustment always go in the same direction (that is, both accounts are increased or both accounts are reduced) and accounts affected by a deferral adjustment always go in opposite directions. 35. The company consumes \$5,000 from an existing asset. The company adjusts its accounts accordingly. Which of the following is a true statement? A. This is an accrual adjustment. B. This is a closing adjustment. C. This is a deferral adjustment. D. This is an immoral adjustment. 36. Adjustments on an accrual basis include: A. an increase in assets and revenues or an increase in liabilities and expenditure moving in the same direction. B. an increase in assets and expenditure or an increase in liabilities and revenues. C. increase in assets and decrease in revenue or increase in liabilities and decrease in expenditure. D. increase in assets and decrease in expenditure or increase in liabilities and decrease in revenue. 37. At the end of the month, the entry of the adjustment journal to record the use of commissions will include: A. A charge on commissions and a credit on commission costs. B. A charge on commission costs and a credit on commissions. C. A charge on commissions and a credit on revenue. D. A charge on commissions and a cash credit. 38. A company owes rent at a rate of \$6,000 per month. The company pays the rent due at ten each month for the previous month. At the end of each month, what kind of adjustment is required? A. An adjustment on an accrual basis. B. A closing setting. C. A deferral adjustment. D. No adjustment. 39. Which of the following is not a condition for the value to which an asset refers to a financial situation? A. Book value. B. Book value. C. Equipment, net. D. Value of surcharge. 40. Where existing assets are wiped out in normal business: A. expenditure is recorded. B. unearned income is recorded. C. an increase shall be recorded. D. prepaid expenditure. 41. During the month, a company consumes up to \$4,000 of commissions. At the end of the month, the relevant adjustment journal entry will result in: A. reduction of a fixed asset and equal reduction of costs. B. an increase in an asset and an equal increase in expenditure. C. reduction of an asset and equal increase in expenditure. D. increasing an asset and reducing costs. 42. Unearned premiums were \$5,500 at the beginning of the year and \$7,500 at the end of the year. The premiums collected were \$42,000. How much premiums had been earned this year? A. \$40,000 B. \$44,000 C. \$55,000 D. \$29,000 43. A journal entry adjustment that includes an increase in an asset fee will include an increase in the fixed asset account associated with A(n). B. liability account. C. revenue account. D. expense account. 44. In order to calculate the corporate income tax expense for the current period, it is necessary to know: A. the operating income and the corporate tax bill from previous periods. B. corporate income before income taxes and corporation tax rate. C. the operating expenses and revenues of the companies. D. the revenues, expenses and dividends of the companies. 45. Declared dividends: A. constitute a business expense. B. are not a legal obligation to be paid by a company. C. is a way of distributing the company's profits to its shareholders. D. refer to the balance sheet. 46. Which of these accounts would normally not be affected by an adjustment? A. Supplies. B. Revenue. C. Expenses. D. Cash. Purrfect Pets had an income before income tax of \$164,000 in the last quarter and a 34% tax rate. His net income should be listed as: A. \$55,760. B. \$108,240. C. \$219,760. D. \$482,353. 48. Purrfect Pets had \$6,000 of supplies at the end of October. During November, the company bought \$2,000 of supplies. At the end of November, the company had \$1,000 of commissions remaining. Which of the following statements is not true? A. During November, the company used \$980 of insurance during the month. Which of the following statements is true? A. The company will have to credit Insurance Expense for \$980 and Debit Prepaid Insurance for \$980. B. Re-earnings should be reduced and shareholders' equity should be increased as a result of this. C. The company will have to charge insurance costs for \$980 and Credit Prepaid Insurance for \$980. D. Shareholders' profits and equity should be increased as a result of this. 50. A company has a loan that collects interest at an interest rate of \$20 a day. The company pays the interest once a quarter. Which of these would be an accurate adjustment for one month during the no payments are made? A. Payable Debit Interest and Credit Interest Expenses. B. Debit Notes Payable and Credit Cash. C. Debit Interest Expenses and Payable Credit Interest. D. Cash and credit notes payable. 51. Accumulated depreciation: A. is an expense account. B. is a liability account. C. is an asset account. D. is a counter-asset account. 52. A company pays salaries every two weeks. Wages are \$100 a day, seven days a week. On March 31, the company pays salaries for the two weeks ended March 24. At the time of the month, the relevant time adjustment entry will include an A. charge on Salaries payable for \$1,400 and a credit to wage expenses for \$1,400. B. charge in salary costs for \$700 and a credit for salaries payable for \$700. C. charge in salaries payable for \$700 and a cash credit for \$700. D. charge in expenses salaries for \$1,400 and a credit in salaries payable for \$1,400. 53. Correspondents: A. are used to increase the initial value of the account they hedge. B. they always appear in the same column of the balance sheet as the account they hedge. C. are used to reduce the initial value of the account they hedge. D. reduce the asset to its fair value. 54. Could writing a time adjustment entry to identify depreciation cause which of the following? A. Increase liabilities and costs and reduce shareholders' equity. B. Reduction of own funds of assets and shareholders and increase in costs. C. Reduction of assets, increase in liabilities and increase in expenditure. D. Increase in assets, increase liabilities and reduce costs. 55. When a dividend is declared but has not yet been paid, A.'s assets will increase and shareholders' equity will be reduced. B. assets will be reduced and shareholders' equity will increase. C. no accounts will be affected until the dividend is paid. D. liabilities will increase and shareholders' equity will be reduced. 56. At the end of the year, accrual adjustment entries could include: A. charge on expenses and credit to an asset. B. credit in revenue and charge in expenses. C. debit in cash and credit to contributors capital. D. charge in expenses and credit in liability. 57. Your business purchased a deposit certificate on April 1 that will pay \$90 interest three months from that date. On April 30, which of the following customization entries will be made? A. Charge interest receivable for \$90. interest income for \$90. B. Debit interest income for \$30. interest receivable for \$30. C. Interest receivable for \$30? interest income for \$30. D. Debit interest income for \$90. interest receivable for \$90. 58. Your business declared a dividend of \$200 on August 31, payable in September. On August 31st, which of the following entries in the magazine will be made? A. Debit Dividends Receivable for \$200? credit dividends declared for \$200. B. Debit dividends declared for \$200; credit dividends payable for \$200. C. Debit Dividends Payable for \$200; credit dividends declared for \$200. D. dividends declared for \$200? credit dividends receivable for \$200. 59. A count of commissions revealed \$400 worth on hand on 12/31/13. The adjustment entry will include a.a. commissions costs about \$400. B. a charge on commission fees for \$600. C. a charge in commissions for \$400. D. a charge in commissions for \$600. 60. The insurance policy covers four years and was purchased by Sneetch on 1/1/13. The adjustment entry on December 31, 2013 will include a. a charge in prepaid insurance for \$1,200. B. a credit to prepaid insurance for \$1,200. C. charge insurance costs for \$3,600. D. a credit to prepaid insurance for \$3,600. 61. Office equipment is depreciated at a rate of \$1,000 per year. The adjustment entry will include A. a charge on accumulated depreciation for \$1,000. B. a credit to office equipment for \$1,000. C. credit to depreciation expenses for \$1,000. D. credit in accumulated depreciation for \$1,000. 62. Three-fifths (60%) the amount recorded as unearned income shall remain unearned from 31/12/13. The adjustment entry will include A. a credit for service revenue for \$3,000. B. a credit on unearned income for \$3,000. C. a credit to service revenue for \$2,000. D. a credit to unearned income for \$2,000. 63. Accrued wages on 31/12/13 are \$2,000. The adjustment entry will include A. a charge on salaries payable for \$2,000. B. a charge on salary costs for \$28,000. C. credit to salaries payable for \$2,000. D. a credit to wage expenses for \$28,000. The new CEO of a company takes over on December 10, 2013. He has been promised a significant bonus for every per cent that can increase net income in 2014 compared to the 2013 results. 64. Which of the following actions would help the CEO to make the results of 2014 net income more impressive? A. Overestimation of the cost of machinery purchased in 2014. B. Prepayment of expenses for 2014 in 2013. C. Deferral of 2014 expenses for 2015 and accumulation of revenue in 2014 that does not exist. D. Recording 2014 revenues as unearned income. 65. Which of the following actions could not be considered immoral? A. Overestimation of the cost of machinery purchased in 2014. B. Prepayment of expenses for 2014 in 2013. C. Deferral of 2014 expenses for 2015 and accumulation of revenue in 2014 that does not exist. D. Recording 2014 revenues as unearned income. 66. One of the major advantages of making adjustments to improve the quality of financial statements is that: A. ensure the recognition of revenue and expenditure during the period acquired and incurred. B. ensure that all assessments of future activities are eliminated from the examination. C. to ensure that revenue and expenses are conservatively recognised during the hey period D. give the opportunity to handle the numbers in the best possible way. 67. Which of the following takes place first at the end of each accounting period? A. Prepare the customization entries. B. Prepare a balance after closing. C. Prepare closing entries. D. Prepare the statement of profits in a new way. 68. Which of the following takes place last at the end of the year? A. Preparation Preparation Entries. B. Prepare a adjusted balance. C. Prepare closing entries. D. Prepare a balance after closing. 69. After the adjustment entries have been prepared, the equality of the charges and credits recorded shall be checked by the preparation of a(n): A. balance after closure. B. adjusted balance. C. statement of results. D. balance sheet. 70. If the total charges are not equal to the total appropriations in an adjusted balance, which of the following errors may have occurred? A. Posting of salary expenses to administrative expenses. B. Charge interest payable instead of charge interest expense. C. Transaction log twice. D. Posting credit to The Wages Payable as a charge. 71. An adjusted balance should be drawn up immediately: A. after the financial statements, but before closure. B. before posting adjustment journals. C. after posting the adjustment journal. D. after the customization records have been recorded. 72. Which of the following statements about a adjusted balance are true? A. Charges should be equal to credits both before and after adjustments have been made. B. Charges will be equal to credits after adjustments made, but not necessarily before. C. Charges will be equal to credits before adjustments are made, but not necessarily after. D. Charges do not need to balance credits in the adjusted balance, but must be equal in the balance after closure. 73. A counter account appears in a balance: A. just before the hedge account, but in the opposite column. B. immediately after the hedge account in the same column. C. immediately after the account hedges, but in the opposite column. D. just before the account that compensates and in the same column. 74. Which of the following will appear in the billing column of a adjusted balance? A. Revenue from services. B. Declared dividends. C. Accumulated depreciation. D. Unearned income. 75. Which of the following would be included in the credit column of an adjusted balance? A. Income tax payable. B. Depreciation expenses. C. Prepaid insurance. D. Interest receivable. 76. After the adjustment entries have been prepared and posted, but before the closing entries are prepared and posted, the balance in the re-earnings is equal to a. zero. B. the difference between all assets and total liabilities. C. the amount to be indicated in the balance sheet for the years. D. the amount reported in the balance sheet for previous years. 77. Which of the following dividend statements is not true? A. Declared dividends have a debit balance. B. Dividends reduce re-profits. C. Dividends declared are D. Dividends declared are a balance sheet account. 78. Which of the following test balances is used as a source for compiling the results statement? A. Unadjusted balance. B. Default balance. C. Adjusted balance. D. Balance after closure. 79. 79. balance is: A. the balance sheet. B. the statement of results. C. the cash flow statement. D. the declaration of profits in re-election. 80. After determining net income, it is then transferred to: A. the balance sheet. B. the statement of results. C. the cash flow statement. D. the declaration of profits in re-election. 81. Before the closing entries are prepared, the balance of the re-earnings in the adjusted balance shall be equal to: A. the balance of the re-earnings at the beginning of the year. B. the balance of the re-earnings after the addition of revenue and the deduction of expenses, but before the deduction of dividends. C. the balance of the profits at the end of the year. D. the balance of the re-earnings at the beginning of the following year. 82. Which of the following accounts will be classified as a current liability? A. Declared dividends. B. Unearned income. C. Salary expenses. D. Accounts receivable. 83. Which of the following is a factual statement on the nature of the equipment? A. While equipment is an asset, its use (depreciation) is an expense. B. While equipment is an asset, its use (depreciation) is an obligation. C. While equipment is an asset, its use (depreciation) affects the capital contributed. D. Equipment and its use (depreciation) are both obligations. 84. Which of the following accounts will be classified as a current liability? A. Revenue from services. B. Salary expenses. C. Accumulated depreciation. D. Dividends payable. 85. In the balance sheet, the accumulated depreciation is: A. added to the assets and equipment. B. removed from the property and equipment. C. is added to all obligations. D. deducted from the total liabilities. 86. Assuming no errors have been made, when a company draws up the adjusted balance: A. the assets will be equal to liabilities plus re-earnings. B. shareholders' own funds will be adjusted to include net income for current periods. C. the debit column and credit column will be equal. D. the profit and loss accounts will be closed. 87. Which of the following statements is not true? A. Net income implies that the income is greater than the costs. B. Net loss causes a decrease in re-profits. C. Net income causes an increase in shareholders' equity. D. A net loss prevents a company from declaring dividends. 88. Which of the following statements is true? A. Expenses are listed before revenue in the profit and loss statement. B. Operating income is listed before net income in the profit and loss statement. C. The statement of profit and loss shall be drawn up after the balance sheet. D. The declared dividends are shown in the Results. 89. In the statement of profits receivable: Declared dividends increase net income and are added for the calculation of the balance of profits to a new one from the end of the year. B. declared dividends shall be deducted for the purpose of calculating the balance of profits receivable from the end of the year. C. declared dividends are not used to calculate the balance sheet at the end of the year re-earnings. D. declared dividends are not mentioned in the re-earnings statement. 90. Dont Tread on Me Tire Company had maintained a profit at December 31, 2013 of \$200,000. During 2014, the company had revenue of \$400,000 and expenses of \$350,000, and the company declared and paid dividends of \$11,000. The re-earnings on the balance sheet at December 31, 2014 will be: A. \$39,000. B. \$239,000. C. \$250,000. D. \$289,000. 91. Purrfect Pets had an initial balance in its earnings account of \$385,600. During the year, the company declared and paid a dividend of \$4,700, and at the end of the year, reported a new profit of \$399,860. The net income of companies for the year was: A. \$14,260. B. \$18,960. C. \$9,560. D. 0 bucks. 92. Treasury Bank Corporation made a profit at the end of December 31, 2013 of \$450,000. During 2014, the company had a net income of \$170,000 and declared dividends of \$20,000. The re-earnings on the balance sheet at December 31, 2014 will be: A. \$430,000. B. \$600,000. C. \$620,000. D. \$640,000. 93. At the end of the accounting period: A. all accounts are closed. B. temporary accounts shall be closed; permanent accounts. C. permanent accounts shall be closed; temporary accounts. D. only accounts with a credit balance are closed. 94. Are profit and loss accounts closed at what stage of the accounting process? A. The moment adjustments are made. B. After making adjustments and before preparing the results statement. C. After the preparation of the profit and loss statement, but before the balance sheet is prepared. D. As the last entries at the end of each accounting year. 95. Which of the following statements is true? A. If the revenue is less than the expenses, the company has a net loss and the profit is reduced. B. If the revenue is greater than the costs, the company has net income and contributes capital increases. C. If the revenue is less than the costs, the company has a net loss and contributes capital increases to balance the loss. D. If revenues are greater than expenses, the company has net income and re-earnings decrease. 96. Closing entries: A. are prepared before the preparation of the financial statements. B. a reduction in the number of permanent accounts. C. cause revenue and expense accounts to have zero balances. D. summarize the activity in each account. 97. Permanent accounts: A. are not allowed under GAAP. B. their balances shall be reset at the end of each accounting year. C. not to transfer the balance of the end of the year to the next D. are balance sheet accounts. 98. Purrfect Pets has made all end-of-year adjustments. His expense accounts total \$130,000 and his revenue accounts

total \$190,000. The closing entry for closing the profit and loss accounts for the year will: A. charge its various expense accounts for Debit earnings are re-generated for \$60,000, and credit its various revenue accounts for a total of \$190,000. B. charging her various income accounts for a total of \$190,000, crediting her various expense accounts for a total of \$130,000, and credit gains in re-election for \$60,000. C. charging her various expense accounts for a total of \$130,000, crediting her various income accounts for a total of \$190,000, and credit gains in re-election for \$60,000. D. charging her various revenue accounts for a total of \$190,000, charging re-earnings for \$60,000, and crediting her various expense accounts for a total of \$130,000. 99. Two types of closing entries are posted to the profit at the end of the year. These are entries in: A. transfer of income and expenses to re-earnings. B. transfer of assets and liabilities to re-profits. C. transfer of net income (or losses) and dividends declared in re-earnings. D. closure of permanent and temporary accounts. 100. The sales revenue account has a credit balance of \$367,200 at the end of the year. After the closing entries are recorded, the account will have: A. debit balance of \$367,200. B. have zero balance. C. still have a credit balance of \$367,200. D. be deleted entirely from the general ledger. 101. Which of the following statements is true? A. Re-earnings are a permanent account, while profit and loss accounts are temporary. B. Receivables and profit and loss accounts are all temporary accounts. C. Receivables and profit and loss accounts are all permanent accounts. D. Receivables are a temporary account, while profit and loss accounts are permanent accounts. 102. Which of the following would have an adverse effect on net income? A. Failure to adjust registration for revenue raising. B. Underestimating the amount of depreciation recorded. C. Failure to record the portion of prepaid rent that has expired. D. Exaggerating the commission count at the end of the year. 103. Which of the following will happen if the accrual adjustment entry is not made for accrued income but has not yet been recorded? A. Assets will be undervalued and revenues will be overstated. B. Revenues will be undervalued and assets will be overstated. C. Both income and assets will be overstated. D. Both revenue and assets will be undervalued. 104. Which of the following will happen if the accrual adjustment entry is not made to record the costs incurred but not yet recorded? A. Both costs and liabilities will be overstated. B. Both costs and liabilities will be underestimated. Costs will be underestimated and liabilities overstated. D. Costs will be overstated and liabilities will be underestimated. 105. At 31 December 2013, interest of \$500 is due on a bank loan which will not be paid until 30 June 2014. What is the necessary subscription adjustment to the magazine on December 31, 2013? A. Option B. Option B C. Option C D. Option D. 106. A company pays its workforce Fridays for a five-day working week. The payroll for a week is \$100,000. If the end of the accounting year falls on Tuesday, the time adjustment posting to record this will include an A. charge on Salary Expenses of \$100,000. B. charge in salary costs of \$40,000. C. credit to salaries payable \$60,000. D. credit to salaries payable \$100,000. 107. A company that initially recorded Prepaid Rent. Since the end of the accounting year, part of this is no longer prepaid. If no adjustment is made to record this expiration, which of the following will occur? A. Assets will be undervalued and expenses will be overstated. B. Assets will be overstated and costs will be undervalued. C. Assets and expenses will be overstated. D. Assets and expenses will be undervalued. 108. On June 30, 2013, a company purchased a two-year insurance policy for \$18,000, paying cash and charging Prepaid Insurance for the entire two-year premium amount. The adjustment entry on December 31, 2013 includes an A. credit to Prepaid Insurance of \$4,500. B. credit to insurance costs of \$4,500. C. credit to prepaid insurance \$9,000. D. charge in insurance costs of \$9,000. 109. One company reported the following amounts of salaries paid at the beginning and end of 2013: The profit and loss statement for 2013 reported wage expenses of \$56,200. How much cash was paid for salaries during 2013? A. \$52,950 B. \$56,200 C. \$54,450 D. \$53,700 110. A company started the year with \$1,500 of commissions on hand. During the year the company bought additional commissions of \$800 and recorded them as an increase in asset commissions. At the end of the year the company found that only \$300 of supplies are still on hand. What is the adjustment journal posting that will be made at the end of the period? A. Option B. Option B C. Option C D. Option D111. On December 16, 2013, B. Darin Company received \$3,600 from S. Dee for office rental owned by B. Darin. The \$3,600 is for the period from December 16, 2013 to February 15, 2014. B. Darin Company recorded this as unearned rent when it was received on December 16. The enrollment adjustment on December 31 will include a. A credit to rent income of \$900. B. A credit to the Unearned Rental Income of \$900. C. A \$1,800 rental fee. D. A charge on unearned rental income of \$1,800. 112. One company had estimated net income at \$77,550 based on the un adjusted balance. The following customization entries were then made: payable of \$790. Interest earned but not received from investments of \$750; Prepaid insurance was reduced by \$550 for insurance that was eliminated during the period; \$750 of unearned income has now been earned. After recording these adjustments, the net income will be: A. \$77,710. B. \$74,710. C. \$77,310. D. \$79,600. 113. Which of the following is not a true statement? A. Expenses are closed on credit. B. Proceeds are closed at a charge. C. closed on credit. D. Re-earnings are closed at a charge. 114. The adjusted balance of a company at December 31, 2013, where all accounts have normal balances are: Based on this information, after all closing entries have been made, the balance in the re-earnings account is: A. \$2,000. B. \$4,000. C. 0 bucks. Dee, \$1,500. 115. As of December 31, 2013, the balance of the re-earnings is \$20,000. As of December 31, 2014, the balance on re-earnings is \$19,100. During 2014, dividends of \$4,000 were declared and paid. What is the amount of net income for 2014? A. \$4,900 B. \$3,100 C. \$900 D. \$(900) On April 30, 2014, a three-year insurance policy was purchased with a cash payment of \$18,000. The coverage started right away. 116. What is the amount of insurance costs to be reported in the statement of income for the year ended 31 December 2014? A. \$4,000 B. \$18,000 C. \$6,000 D. \$2,000 117. What is the amount to be reported in the balance sheet as Prepaid Insurance at 31 December 2014? A. \$0 B. \$14,000 C. \$12,000 D. \$16,000 118. If the salaries payable were recorded on December 31, and these salaries were paid on the following January 5, entry on January 5 would be: A. Charge on wage expenses and credit in cash. B. Charge on Payable Wages and Credit in Cash. C. Cash charge and credit to wages payable. D. Cash charge and credit to payroll expenses. 119. The Office Supplies asset account has a balance of \$800 at the beginning of the year. The amount on hand at the end of the year is \$500. The company has estimated office supplies expenses for the year to be \$3,500. Based on this information, what amount of office supplies was purchased during the year? A. \$0 B. \$4,000 C. \$3,200 D. \$3,000 The following items are taken from the adjusted balance prepared as of December 31, 2013. All accounts have regular balances. 120. What is the total credit column of the adjusted balance? A. \$24,700 B. \$37,050 C. \$74,900 D. \$37,450 121. What is the amount of net income (net loss) for the year? A. \$(2,000) B. \$(3,800) C. \$(1,600) D. \$(3,300) 122. What is the amount of total assets to be reported in the Balance Sheet at 31 December 2013? A. \$26,950 B. \$27,100 C. \$27,250 D. \$26,550 123. Total liabilities in the Balance Sheet at December 31, 2013 are: A. \$19,550. B. \$14,950. C. \$15,350. D. \$19,850. 124. What is the amount of re-earnings in the Balance Sheet at 31 December 2013? A. \$100 B. \$2,300 C. \$3,900 D. \$1,700 125. An error is indicated if the following account appears in the balance after closing with a positive balance. A. Office. B. Contributed capital injection. C. Accumulated depreciation. D. Depreciation expenses. One company declared and paid a dividend of \$8,000 this year. The entry for the closing of the dividend account at the end of the year is: A. Option A B. Option B C. Option C D. Option D 127. The periodic periodic cost of equipment for the periods during which it is used is called A. Accumulated allocation. B. Unearned income. C. Adv. D. Prepaid expenditure. 128. Accrued income recorded at the end of this year: A. often results in cash receipts from customers in the following period. B. often lead to cash payments in the following period. C. they are also called unearned income. D. recorded in the current year in which cash is received. 129. Which of the following is the usual last step in the accounting cycle? A. Preparation of the adjusted balance. B. Preparation of financial statements. C. Preparation of a balance after closure. D. Preparation of an un adjusted balance sheet. 130. Which of the following statements is not true? A. Adjusting the entries affects the cash account. B. Adjustments to prepaid expenses and unearned income are deferral adjustments. C. Adjustments for wages and income taxes are usually adjustments on an accrual basis. D. The adjustment of the entries includes a profit and loss account and a balance sheet account. 131. Adjustment of entries: A. affect only balance sheet accounts. B. affect only profit and loss accounts. C. affect only cash flow accounts. D. affect both the statement of income and the balance sheet accounts. 132. If the total amount that should have been charged in insurance costs is charged incorrectly to prepaid insurance, what will be the effect on the financial statements of the year? A. Revenue will be overstated. B. Assets will be overstated. C. Shareholders' equity will be devalued. D. Expenses will be overstated. 133. Which of the following errors causes the depreciation of net income? A. The wages of unpaid workers shall not be recorded. B. Depreciation costs are not recorded. C. The collection of accounts receivable shall not be recorded. D. Revenue earned but not yet received has not been recorded. 134. Would non-concentration of wages not affect which of the following financial statements? A. Balance Sheet. B. Status of results. C. Statement of earnings in re-earnings. D. Cash flow statement. 135. Which of the following is not a true statement? A. When you make an adjustment to identify commissions used in a period, the total assets will not change. B. Accrued wages are wages due but not yet paid to employees and should be recorded with an adjustment entry that will increase costs. C. Postponements are created by reflecting a transaction in such a way as to delay or postpone the recognition of an expense or D. Depreciation is an example of deferred expenditure. 136. A company charged a customer for services provided in January. The payment was partially received in January and the remainder in February. When should registration be made to record revenue from the service? A. January. B. February. C. Separation between January and February. D. At the end of the year with a custom record. 137. Deferred costs (prepaid expenses) are initially recorded as but over time they are expected to become A. obligations. B. other assets. C. revenue. D. expenses. 138. An example of accrued income is A. accumulated interest on a note receivable. B. accrued interest on a note payable. C. unearned income. D. accounts receivable. 139. An example of accrued expenditure is A. Services performed but not yet charged. B. Accrued interest on a note payable. C. Prepaid insurance. D. Adv. 140. When are customization entries made? A. At the beginning of the accounting period. B. At the end of the accounting period. C. Daily. D. Weekly. Essay Questions 141. The companies' un adjusted balance includes the following account balances: The following data is available to determine adjustment entries: A) \$4,350 of prepaid insurance that expired during the period. B) The company calculates depreciation expenses of \$8,150 for the period. C) A count showed \$85,700 of commissions on hand. D) Interest earned and receivable from notes receivable is \$260 for the period. E) Performed services, \$5,600, for which customers had previously paid in advance. F) Executed services, \$2,000, have not yet been charged or recorded. Prepare the customization records to be recorded. Then, prepare a custom balance by using the blank columns to the right of the unneeded balance. The following figures are for grass is Greener Company at the end of 2014, after adjustments, in addition to calculating income tax expense. 142. Required. A) Calculate income before income tax. B) Calculate the income tax that the company owes if its tax rate is 40%. C) Calculate net income. 143. Preparation of profit and loss statement 144. Below is an alphabetical list of all accounts for T.O.s Dance Studio on 31/12/14. Let's say all adjustments have been made and everything else is normal. A) Prepare the final entries for T.O.s Dance Studio. B) Prepare the balance after closing for T.O.s Dance Studio. C) Preparation of the classified balance sheet for T.O.s Dance Studio. 145. Starbellies Tattoo Parlor LLC completes the accounting process for the year ended 12/31/14. Transactions for the year have been recorded and posted. Information about customizing entries is displayed below. A. The commission account shows a balance of \$900. A count of commissions revealed \$400 on hand on 31/12/14. B. A one-year insurance policy was purchased for \$1,200 on 12/1/14. It was registered as Prepaid Insurance at the time. C. Office equipment is depreciated at a rate of \$1,000 a year. The equipment belongs all year round. D. A customer paid \$10,000 in advance for the services to be provided later, which was recorded as unearned income. Of this amount, 30% was acquired as of 31/12/14. Q. Employees earn \$5,000 for a 5-day work week. December 31, 2014 falls on Tuesday. F. Starbellies has completed \$500 of work for which neither has nor cash or invoiced the customer. A) For each of the adjustment elements (a-f) prepare the adjustment record that will be required on 31/12/14. B) For each of the adjustment items (a-f) indicate the amount and direction of the impact of the entry in the adjustment entries on the balance sheet and statement of income items. Using the following format, indicate + for increase, - for reduction, and NE for no effect. 146. As of December 31, 2014, Purrrfect Pets had maintained a profit of \$267,900 before making its final holdings. During 2014, the company had service revenues of \$168,100 and other revenue of \$81,300. The company used supplies (mainly cat food and garbage) during the year that cost \$87,900. Administrative expenses were \$16,400 and salaries (paid in cash) were \$18,300. Taxes were \$13,700 and dividends declared and paid totaled \$6,000. Preparation of T accounts for profit and loss accounts, declared dividends and re-earnings at the end of the year before closing. Then, enter the closing entries in the T accounts and calculate the final balances of the T. 147 accounts. Place the appropriate letter A, D, or C in the correct space to describe the type of adjustment required at the end of April. Entry Type A Posting Adjustment Increase D Postponement of Adjustment of Entry C Close Entry 6. The grass is greener revenue transfers of \$50,000 and expenses of \$32,000 to maintain profits. 7. The grass is greener makes an entrance to reflect the use of equipment. 8. The grass is greener dividend transfers of \$1,200 on the back earnings. 9. Grass is greener record income taxes. 10. The weekly payroll of \$5,000 to be paid next week is recorded. 148. Match the term to the letter that corresponds to the definition in the following list. There are more definitions than terms. Term Definitions A. When revenue less expenses is a negative number. B. Adds new values to the balance sheet and profit and loss accounts. C. Also known as balance sheet accounts. D. Entries made to update existing accounts and record new events. E. The level of profit before the examination of income tax. F. G. The amount to which an asset or liability refers in the financial statements. H. An account combined with another account to reduce its book value. I. Lists the balances of all temporary and permanent accounts to check that it charges equal credits. J. A journal entry that transfers net income or loss to the profit account to K. Converts some of the assets or liabilities in book value into expenses or income. L. An account that must have a zero balance after the closing entry. M. Lists the balances of all permanent accounts to check that it charges equal credits. 149. For each of the following transactions, match the action (Charge or Credit) and account type (Asset, Obligation, income or to each account for the appropriate adjustment to be made at the end of June. Also, show the effect on neon profits. (D) Debit or (C) Credit (A) Asset, (L) Obligation, (R) income Account or (E) Expenses or Earnings A. The company has an insurance cost of \$620 per day for the month of June. On June 1, the company had \$26,000 of prepaid insurance. B. The company provided services in June for which it received a payment of \$18,300 in May. C. The company had \$12,500 worth of work performed by employees to be paid in July. D. The company had an income before income taxes of \$287,400 for June and will pay taxes at a rate of 36%. The tax will be paid in July. Q. The company had interest of \$1,000 due for June on a certificate of deposit (CD). Interest will be received in August. 150. Assign each of the following accounts to the term specifying its temporary or permanent nature. If it's temporary, indicate whether the account will be closed with a debit or credit or not. P permanent account T temporary account D closing account with a C billing closing account with an N credit did not close Chapter 04 Adjustments, Financial Statements, and Financial Results Answer Key True / False Questions 1. As a company uses commissions, an adjustment should be made to reduce an asset account and increase an expense account. TRUE Adjustment to record supplies used reduces commissions and increases procurement costs. AACSB: Analytical AICPA BB: Critical Thinking AICPA FN: Flowering Measurement: Difficulty Analysis: 2 Average Learning Goal: 04-02 Preparation adjustments required at the end of the period. Subject: Adjustment of entries 2. The purpose of adjusting the entries is to transfer net income and dividends to re-earnings. FALSE The purpose of customizing records is to update recorded amounts and include events that have not yet been logged. AACSB: Reflective Thinking AICPA BB: Critical Thinking AICPA FN: Flowering Measurement: Remember Difficulty: 1 Easy Learning Goal: 04-01 Explain Why Adjustments Are Required. Subject: Why adjustments are required 3. A contra account is added to the account that compensates. FALSE A contra account is an offset or decrease of another account. AACSB: Reflective Thinking AICPA BB: Critical Thinking AICPA FN: Flowering Measurement: Remember Difficulty: 1 Easy Learning Goal: 04-01 Explain Why Adjustments Are Required. Subject: Why adjustments are required 3. A contra account is added to the account that compensates. FALSE A contra account is an offset or decrease of another account. AACSB: Reflective Thinking AICPA BB: Critical Thinking AICPA FN: Flowering Measurement: Remember Difficulty: 1 Easy Learning Goal: 04-02 Preparation adjustments required at the end of the period. Subject: Adjustment of entries 2. The purpose of adjusting the entries is to transfer net income and dividends to re-earnings. FALSE The purpose of customizing records is to update recorded amounts and include events that have not yet been logged. AACSB: Reflective Thinking AICPA BB: Critical Thinking AICPA FN: Flowering Measurement: Remember Difficulty: 1 Easy Learning Goal: 04-01 Explain Why Adjustments Are Required. Subject: Why adjustments are required 3. A contra account is added to the account that compensates. FALSE A contra account is an offset or decrease of another account. AACSB: Reflective Thinking AICPA BB: Critical Thinking AICPA FN: Flowering Measurement: Remember Difficulty: 1 Easy Learning Goal: 04-03 Prepare a Customized Balance Trial. Subject: Adjusted balance 9. The amounts of all accounts indicated in the balance sheet can be obtained from the adjusted balance sheet. FALSE The adjusted balance includes the balance of the beginning of the year for re-earnings, the balance sheet shall indicate the balance at the end of the year. Therefore, the balance of the re-earnings account comes from the statement of the re-profits. AACSB: Reflective Thinking AICPA BB: Critical Thinking AICPA FN: Measuring Blooms: Remember Difficulty: 3 Hard Learning Goal: 04-04 Preparing Financial Statements. Subject: Financial statements 10. One of the purposes of closing entries is to zero the balances in all fixed assets, liabilities, income and expenses to start the next accounting period. FALSE asset and liability accounts should remain unaffected by the closure process. AACSB: Reflective Thinking AICPA BB: Critical Thinking AICPA FN: Flowering Measurement: Measuring: Difficulty: 1 Easy Learning Goal: 04-05 Explain the closing process. Subject: The closure procedure 11. A deferral adjustment can include an asset and an expense account. TRUE miscarrriages usually include an asset and expense, or an obligation and income. AACSB: Reflective Thinking AICPA BB: Critical Thinking AICPA FN: Flowering Measurement: Understanding Difficulty: 1 Easy Learning Goal: 04-01 Explain Why Adjustments Are Required. Subject: Adjustment categories 12. Depreciation is a measure of the decrease in the market value of an asset. Pseudo-distraction is a systematic and rational method of dispersing the amortized cost of a fixed asset used in the business at depreciation costs each period the fixed asset is used. AACSB: Reflective Thinking AICPA BB: Critical Thinking AICPA FN: Flowering Measurement: Understanding Difficulty: 2 Average Learning Goal: 04-02 Preparation adjustments required at the end of the period. Subject: Adjustment of entries 13. After the closing entries are posted, all revenue accounts and expense accounts are zero and the re-earnings account has been charged for \$4,000. That means the company had a net income of \$4,000. FALSE All temporary accounts close when closing entries are posted. This means that revenues and expenses will be zero and their amounts will have been transferred to re-earnings. If this account has been charged, it is reduced, which means that there has been a net loss. AACSB: Analytical AICPA BB: Critical Thinking AICPA FN: Flowering Measurement: Difficulty Analysis: 2 Average Learning Goal: 04-05 Explain the closing process. Subject: The closure procedure 14. The closing procedure shall include a transfer of the balance of the declared dividend account to the re-account. TRUE The Dividend account is prepared for use for the next period with the end of the period closing in the re-earnings account. AACSB: Reflective Thinking AICPA BB: Critical Thinking AICPA FN: Flowering Measurement: Remember Difficulty: 1 Easy Learning Goal: 04-05 Explain the Closing Process. Subject: The closure procedure 15. If a company does not record equipment depreciation costs for a period, the financial statements will show total assets overvalued and total shareholders' equity undervalued in the balance sheet. FALSE If the adjustment entry to record depreciation for the period is not made, the accumulated depreciation account will be devalued, which means that all assets in the balance sheet will be overstated. Depreciation costs will be underestimated, which means that net income will be overstated and this will cause the overstatement of the equity of the balance sheet. AACSB: Analytical AICPA BB: Critical Thinking AICPA FN: Flowering Measurement: Difficulty Assessment: 3 Hard Learning Goal: 04-06 Explain how adjustments affect financial results. Subject: Evaluate the financial results 19. Prepaid expense accounts are reported as assets in the balance sheet. TRUE Prepaid expenses are amounts paid in advance that provide future benefits. AACSB: Reflective Thinking AICPA BB: Critical Thinking AICPA FN: Flowering Measurement: Remember Difficulty: 1 Easy Learning Goal: 04-01 Explain Why Adjustments Are Required. Subject: Why adjustments are needed 20. Customizing entries often involves cash. FALSE Adjustment entries never include cash. AACSB: Reflective Thinking AICPA BB: Critical Thinking AICPA FN: Flowering Measurement: Remember Difficulty: 1 Easy Learning Goal: 04-02 Preparation adjustments required at the end of the period. Subject: Customize entries Multiple Choice Questions 21. Which of the following suggestions about the types of customization records is true? A. An accrual adjustment that increases an asset will include an increase in expenditure. B. A deferral adjustment that reduces an asset will include an increase in an expense. C. An adjustment on an accrual basis that increases a will include an increase in assets. D. A deferral adjustment that increases a contra account will include an increase in an asset. An accrual-based adjustment that increases an asset will include an increase in revenue and an accrual-based adjustment that increases costs will include an increase in liabilities. A snooze adjustment that increases will reduce an asset (or increase the anti-asset). AACSB: Analytical AICPA BB: Critical Thinking AICPA FN: Flowering Measurement: Difficulty Analysis: 2 Medium Learning Goal: 04-01 Explain why adjustments are required. Subject: Adjustment categories 22. Which of the following statements about customizing records is not true? A. Adjustments are required to ensure that the accounting system includes all revenue and expenditure for the period. B. Adjustments shall contribute to ensuring that the relevant accounts in the balance sheet and profit and loss statement are up-to-date and complete. C. Adjusting entries often affects the cash account. & Order is placed, the order will be delivered to your email less than 24 hours, mainly within 4 hours. Hours.

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