ACCTG 211 – Exam 1 – Practice Exam Solutions

1. 10, 1, 5, 8, 2, 7, 6, 4, 9, 3

   (1) Analyze transactions and create journal entries, **(2)** Post the journal entries to ledger accounts, **(3)** Balance ledger accounts and transfer balances to unadjusted trial balance, **(4)** Determine required adjustments and create adjusting journal entries, **(5)** Post the adjusting entries to ledger accounts, **(6)** Rebalance ledger accounts and transfer balances to adjusted trial balance, **(7)** Create financial statements, **(8)** Create closing journal entries, **(9)** Post the closing journal entries to ledger accounts, **(10)** Rebalance ledger accounts and transfer balances to post-closing trial balance

2. **C** – The income statement is prepared first because you need net income to create the statement of shareholders' equity, which is the 2nd statement that is prepared.

3. **A** – They increase retained earnings in the shareholders' equity section. This is why we always credit revenues.

4. **C** – The balance sheet in the current assets section. Money a company is owed is referred to as accounts receivable.

5. **C** – $450,000 because we need to increase the sales revenue of $420,000 by $30,000 to account for the previously unearned revenue that has now been earned.

6. **A** – $14,000 because we need to reduce the balance of the unearned revenue account by $30,000 since the revenue is now earned.

7. **A** – $100 because the adjusted balance of the supplies account is what is left in the supplies account at the end of the period. We were given this value because we were told we had $100 of unused supplies.

8. **B** – $17,600

   Monthly Insur. Exp. = $22,000 / 10 = $2,200

   Two months have passed since the policy was purchased on 2/1.

   Insur. Exp. = $2,200 x 2 = $4,400

   Prepaid Insur. = $22,000 – $4,400 = $17,600

9. **D** – $4,250. The wages payable account will increase by the amount earned but not paid to employees during the current pay period.

   Wages payable = $3,000 + $1,250
   Wages payable = $4,250

10. **B** – $4,000. Interest payable will increase by the amount of the interest expense for the year.

    Interest expense = $100,000 x 0.04
    Interest expense = $4,000

11. **B** – $16,000

    Depreciation expense = ($100,000 – $20,000) / 5
    Depreciation expense = $16,000

12. **A** – Debit operating expenses $35,000; Credit cash $35,000.

    We debit operating expenses because expenses reduce shareholders equity (this is why we always debit expenses). We credit cash because it is an asset that is decreasing.

Assets	=	Liabilities	+	Shareholders' equity		
				Contributed capital	+	Retained earnings
($35,000) cash						($35,000) operating expenses

13. **C** – For this problem you will need to find Ferro Co.'s retained earnings for this year and then add the retained earnings for the year to the beginning balance of the retained earnings account because retained earnings is a continuously increasing account.

    Retained earnings for the year = Net income – Dividends
    Retained earnings for the year = $80,000 - $50,000 = $30,000

    Total retained earnings = Beginning retained earnings + Retained earnings for the year
    Total retained earnings = $10,000 + $30,000 = $40,000

14. **B** – A clothing company will use a computer to run its business so the computer is considered equipment. Inventory is only goods that a company sales as part of its core operations. For a clothing company, clothing would be considered inventory.

15. **B** - Selling stock is a method of financing for a corporation, so this would be an inflow under the financing section.

16. **C** – A balance sheet is the only financial statement above that summarizes a company's financial position at one given date. All the other statements summarize financial performance over a specified period of time.

17. **No effect on net income** – We can see neither revenues nor expenses are impacted by the transaction below.

Assets	=	Liabilities	+	Shareholders' equity		
				Contributed capital	+	Retained earnings
($2,000) cash $2,000 prepaid insurance						

18. **Decrease cash flows** – We can see cash decreases in the transaction below.

Assets	=	Liabilities	+	Shareholders' equity		
				Contributed capital	+	Retained earnings
($2,000) cash $2,000 prepaid insurance						

19. **No effect on net income** – We can see neither revenues nor expenses are impacted by the transaction below.

Assets	=	Liabilities	+	Shareholders' equity		
				Contributed capital	+	Retained earnings
$9,000 cash ($9,000) accounts receivable						

20. **Increase cash flows** – We can see that cash increases in the transaction below.

Assets	=	Liabilities	+	Shareholders' equity		
				Contributed capital	+	Retained earnings
$9,000 cash ($9,000) accounts receivable						

21. **Decrease net income** – The interest expense in the transaction below will decrease net income.

Assets	=	Liabilities	+	Shareholders' equity		
				Contributed capital	+	Retained earnings
		$420 interest payable				($420) interest expense

22. **No effect on cash flows** – The transaction below does not impact cash flows.

Assets	=	Liabilities	+	Shareholders' equity		
				Contributed capital	+	Retained earnings
		$420 interest payable				($420) interest expense

23. **No effect on net income** – The transaction below does not impact revenues or expenses.

Assets	=	Liabilities	+	Shareholders' equity		
				Contributed capital	+	Retained earnings
$350,000 cash				$350,000 common stock		

24. **Increase cash flows** – The transaction below increases cash flows.

Assets	=	Liabilities	+	Shareholders' equity		
				Contributed capital	+	Retained earnings
$350,000 cash				$350,000 common stock		

25. **A** – Debit cash $24,000; Credit note payable $24,000. We debit cash because it is an asset that is increasing. We credit note payable because it is a liability that is increasing.

Assets	=	Liabilities	+	Shareholders' equity		
				Contributed capital	+	Retained earnings
$24,000 cash		$24,000 note payable				

26. **A** – Increased by $15,000

    Assets = Liabilities + Shareholders Equity
    $50,000 = $35,000 + SE
    SE = $15,000

27. **C** – This first thing you need to do to solve this problem is find the change in equity between 2005 and 2006. The change in equity will tell you what the retained earnings (RE) was in 2006 because there were no investments in contributed capital. Then you can solve for the net income (NI) for 2006.

    Equity 2005 = $750,000 - $390,000 = $360,000
    Equity 2006 = $1,250,000 - $500,000 = $750,000
    Change in Equity = $750,000 - $360,000 = $390,000

    $Dividends_{2006} = NI_{2006} – RE_{2006}$
    $\$900,000 = NI_{2006} - \$390,000$
    $NI_{2006} = \$1,290,000$

28. **D**

Retained Earnings = Beginning Balance + Net Income – Dividends
RE= 350,000 + (780,000 – 520,000) – 100,000
RE= 510, 000

29. **D** – We record revenue once a good is shipped or a service is delivered. It does not matter when cash is actually received.

30. **C** – This problem gives you a good bit of extra information. Remember that NI is simply revenues minus expenses.

NI = $100,000 - $25,000 - $15,000 - $30,000 = $30,000

31. **C** – $44,000

We started 2006 with $1,000 in the unearned revenue account. Then we increased unearned revenue by $50,000 with a credit to the account so we had a total of $51,000 in unearned revenue. The only way for the unearned revenue account to go down is for us to earn the revenue. Since the unearned revenue account had a balance of $7,000 at the end of 2006, we must have earned $44,000 in revenue in 2006.

$51,000 - $7,000 = $44,000

32. **C** - At the end of the year, the company must accrue for the salary expense up until December 31, regardless if the employees had been paid or not. Therefore, since the company has a $25,000 payroll for a five-day work week, and since the year end falls on a Wednesday, the company will expense $15,000 ($5,000 per day) in salary expense and create a salary payable of $15,000 until the employees are paid.

Assets	=	Liabilities	+	Shareholders' equity		
				Contributed capital	+	Retained earnings
		15,000 Salary Payable				(15,000) Salary Expense

33. **B** – When the company pays its employees at the end of the week, it will pay $25,000 in cash, expense the $10,000 for the two days it has not yet expense, and decrease the liability Salary Payable which it has now satisfied by paying cash.

Assets	=	Liabilities	+	Shareholders' equity		
				Contributed capital	+	Retained earnings
(25,000) Cash		(15,000) Salary Payable				(10,000) Salary Expense

34. **B** – We still need to accrue for interest even though we have not paid any yet!

    Interest expense = Principal x Rate x Fraction of Year Passed
    Interest expense = $100,000 x .06 x 6/12 = $3,000

35. **D –** Accumulated depreciation is a contra-asset, which is found on the balance sheet. The other answer choices would be found on the income statement.

36. **D** –$4,100

    Supplies Expense = Beg Balance in Supplies + Supply Purchases – Ending Balance in Supplies
    Supplies Expense =$3,500 + $2,200 - $1,600 = $4,100

37. **B** – A debit to rent expense for $2,000; At the end of the month, we need to record an expense for the month of rent that has been used. Expenses are always a debit, so we debit rent expense.

    Monthly Rent = $12,000/6 months = $2,000 per month

38. **A** – Debit supplies, credit accounts payable

Assets	=	Liabilities	+	Shareholders' equity		
				Contributed capital	+	Retained earnings
+ supplies		+ accounts payable				

39. **C** – Debit accounts payable, credit cash

Assets	=	Liabilities	+	Shareholders' equity		
				Contributed capital	+	Retained earnings
(cash)		(accounts payable)				

40. **B –** Debit revenues, credit expenses, and credit retained earnings. See step 7 in the accounting cycle example in the packet.

41. **D** – Dividends are decreased by debits; Dividends are actually increased with debits because an increase in a dividend results in a decrease to equity.

42. **B** – It is the same thing as a balance sheet.

43. **D** – Accumulated depreciation. We close revenues, expenses, and dividends to retained earnings. Accumulated depreciation is a contra-asset, which is not involved in the closing process.

44. **A** – Ensure that retained earnings has the correct balance. During the closing process, we use this year's revenues, expenses, and dividends to update the balance of retained earnings.

45. **B** – Expenses are always a debit.

46. **D** - Retained Earnings is considered an ongoing account since the ending balance one year becomes the beginning balance the next year. Revenues, Expenses, and Dividends are not ongoing, and are therefore closed at the end of every accounting period into Retained Earnings.

47. **A** - This transaction increases cash and increases common stock. Therefore, cash, an asset, is debited (see that it is written first) and common stock, an equity account, is credited (see that it is indented and written second).

48. **C** - When we accrue an expense, we must set up a liability account. In this case, we create a salary payable account. Since we are increasing our expenses, we debit salary expense and as we are increasing a liability, we credit the salary payable account.

49. **C** – Corporation

50. **E** – This problem is a little confusing because we do close dividends out to retained earnings as part of the closing process. However, this problem is specifically asking about the amount that will be closed to retained earnings **for net income**. Dividends are not part of net income because they are not an expense, which means they are not part of solving this problem. Thus, this problem only wants us to look at closing revenues and expenses to retained earnings because revenues and expenses are what are found on the income statement.

    Sales revenue is the only revenue account listed. There are three expenses listed in the problem: interested expense, salary expense, and rent expense. All of the other accounts provided are permanent accounts so they do not need to be closed out at the end of the year.

    Sales Revenue = $450
    Expenses = $60 + $60 + $60 = $180

    Amount closed to RE for net income = $450 – $180
    Amount closed to RE for net income = $270

51. **C** – We need to make it so the temporary accounts are ready to use for the next period. We use the closing entries to give the revenue, expense, and dividend accounts a balance of $0 for the start of the next period. We close the temporary accounts into retained earnings, so we are also updating the balance of retained earnings.

52. **B** – Debit cash $80,000; Credit common stock $80,000. We debit cash because it is an asset that is increasing, and we credit common stock because it is a SE account that is increasing.

Assets	=	Liabilities	+	Shareholders' equity		
				Contributed capital	+	Retained earnings
$80,000 cash				$80,000 common stock		

53. **C** – Debit cash $8,000; Debit accounts receivable $70,000; Credit service revenue $78,000. We debit cash and accounts receivable because they are assets that are increasing. We credit service revenue because it is an SE account that is increasing. Also, we also credit revenue.

Assets	=	Liabilities	+	Shareholders' equity		
				Contributed capital	+	Retained earnings
$8,000 cash $70,000 accounts receivable						$78,000 service revenue

54. **A** – Paying rent is an operating activity because it is part of normal business operations.

55. **B** – Buying furniture is an investing activity because it is a long-term asset.

56. **A** – Paying employees is an operating activity because it is part of normal business operations.

57. **D** – Depreciation is a non-cash expense because we are not paying cash; we are simply recording accumulated depreciation to reduce the book value of our assets.

58. **C** – Borrowing or repaying the principal of a note payable is a financing activity.

59. **C** – Issuing stock is a financing activity because it is a cash flow coming from the owners of the company.

60. **C** – Our accountant should have increased accounts receivable and revenue for this accounting period because the revenue was earned during the current accounting period. However, he did not record the revenue so both accounts receivable and revenue will be understated.

Assets	Liabilities	Equity	Rev	Exp	NI
U			U		

Assets	Liabilities	Equity	Rev	Exp	NI
U	NE	U	U	NE	U

61. **C** – Our accountant should have recorded salary expense for the period and increased salaries payable for the same amount; however, he did not record this transaction so both salary expense and salaries payable will be understated.

Assets	Liabilities	Equity	Rev	Exp	NI
	U			U	

Assets	Liabilities	Equity	Rev	Exp	NI
NE	U	O	NE	U	O

62. **A** – Our accountant should have increase revenue for the current period while decreasing unearned revenue, a liability, because the revenue has now been earned. Our accountant did not do either of these, so revenue will be understated and unearned revenue (a liability) will be overstated.

Assets	Liabilities	Equity	Rev	Exp	NI
	O		U		

Assets	Liabilities	Equity	Rev	Exp	NI
NE	O	U	U	NE	U

63. **C** – Our accountant should have recorded the insurance expense and then reduced the asset prepaid insurance. Since he did not record this transaction, expenses will be understated and assets will be overstated.

Assets	Liabilities	Equity	Rev	Exp	NI
O				U	

Assets	Liabilities	Equity	Rev	Exp	NI
O	NE	O	NE	U	O

64. **D** – Not recording depreciation expense will cause our expenses to be understated. Additionally, because we understated depreciation, it will cause our assets to be overstated.

Assets	Liabilities	Equity	Rev	Exp	NI
O				U	

Assets	Liabilities	Equity	Rev	Exp	NI
O	NE	O	NE	U	O

65. **D** – The company recorded the amount of the loan as more than it actually was. This means that cash (asset) will be overstated and notes payable (liability) will be overstated. Neither revenues nor expenses are affected by the transaction. Thus, net income will not be affected.

Assets	Liabilities	Equity	Rev	Exp	NI
O	O				

Assets	Liabilities	Equity	Rev	Exp	NI
O	O	NE	NE	NE	NE

66. **B** – The company should have recorded an interest expense and increased interest payable. Since nothing was recorded, expenses and liabilities will both be understated.

Assets	Liabilities	Equity	Rev	Exp	NI
	U			U	

Assets	Liabilities	Equity	Rev	Exp	NI
NE	U	O	NE	U	O

67. **D** – The company should have reduced cash and increased notes receivable. Cash should have been reduced by the same amount that notes receivable should have increased. Consequently, the amount of total assets is not affected by this transaction. Neither revenues nor expenses are affected by the transaction. Thus, net income will not be affected.

Assets	Liabilities	Equity	Rev	Exp	NI
NE	NE	NE	NE	NE	NE

68. **A** – The company should have recorded interest revenue and increased interest receivable (asset).

Assets	Liabilities	Equity	Rev	Exp	NI
U			U		

Assets	Liabilities	Equity	Rev	Exp	NI
U	NE	U	U	NE	U

69. **C** – The company recorded too much revenue and increased accounts receivable (asset) by too much.

Assets	Liabilities	Equity	Rev	Exp	NI
O			O		

Assets	Liabilities	Equity	Rev	Exp	NI
O	NE	O	O	NE	O

70. **D** – The amount recorded for cash was understated, and the reduction to accounts receivable was understated. However, since both cash and accounts receivable are assets, nothing is affected by the transaction.

Assets	Liabilities	Equity	Rev	Exp	NI
NE	NE	NE	NE	NE	NE

71. **D** – Since the company has not delivered the service, it cannot record the receipt of cash as revenue. Instead, the company will increase cash and increase unearned revenue (liability). Since the company overstated the amount recorded, this means that both cash and unearned revenue will be overstated. Neither revenues nor expenses are affected by this transaction.

Assets	Liabilities	Equity	Rev	Exp	NI
O	O	NE	NE	NE	NE

72. **A** – When the company provided the service that had already been paid for, it should have recognized the revenue from selling the product and reduced the liability unearned revenue. However, this was not recorded so liabilities are overstated and revenue is understated.

Assets	Liabilities	Equity	Rev	Exp	NI
	O		U		

Assets	Liabilities	Equity	Rev	Exp	NI
NE	O	U	U	NE	U

73. **D** – Expenses will be overstated. It is not clear if cash or prepaid rent was reduced by the transaction; however, it doesn't matter because they are both assets. This means assets will be understated.

Assets	Liabilities	Equity	Rev	Exp	NI
U				O	

Assets	Liabilities	Equity	Rev	Exp	NI
U	NE	U	NE	O	U

74. **A** – The company should have added to prepaid rent (an asset) because the rent was paid for in advance. Instead, they recorded rent expense. This means that prepaid rent (assets) will be understated and expenses will be overstated.

Assets	Liabilities	Equity	Rev	Exp	NI
U				O	

Assets	Liabilities	Equity	Rev	Exp	NI
U	NE	U	NE	O	U

75. **D** – The amount of cash was reduced by too much and the amount of prepaid rent was increased by too much. However, these are both assets so total assets will not be affected by the transaction. This transaction does not affect revenues or expenses.

Assets	Liabilities	Equity	Rev	Exp	NI
NE	NE	NE	NE	NE	NE

76. **D** – Cash should have decreased and supplies should have increased; however, they are both assets so there is no effect on total assets. Neither revenues nor expenses are affected by this transaction.

Assets	Liabilities	Equity	Rev	Exp	NI
NE	NE	NE	NE	NE	NE