

Multiple Choice (2 points each) There is only **ONE BEST** answer.

1. The assumption that a company will account for its transactions separate and apart from those of the owners is called the
 - A. Cost principle.
 - B. Unit-of-measure assumption.
 - C. Continuity assumption.
 - D. Separate-entity assumption.**
 - E. None of the above.

2. The rule that requires a company to recognize expenses when incurred whether cash has been paid or not is the
 - A. cost-benefit
 - B. cost principle
 - C. matching rule**
 - D. revenue recognition
 - E. none of the above

3. An expense incurred in 2001 is not paid until 2002. Using the accrual basis of accounting, the expense should appear on
 - A. the 2001 income statement.**
 - B. the 2002 income statement.
 - C. neither the 2001 nor 2002 income statement.
 - D. both the 2001 and 2002 income statements.

4. Cash for services to be performed in 2002 is received in 2001. Using the accrual basis of accounting, the revenue should appear on
 - A. the 2001 income statement.
 - B. both the 2001 and 2002 income statements.
 - C. neither the 2001 nor 2002 income statement.
 - D. the 2002 income statement.**

5. An adjustment of an asset for which the business paid cash in advance is
 - A. an accrual.
 - B. a deferral.**
 - C. unearned revenue.
 - D. revenue recognition.

6. Closing entries
 - A. are required to reduce the balances in the temporary accounts to zero at the end of each period.
 - B. transfer the components of net income to a stockholders' equity account each period.
 - C. establish a zero balance in all revenue and expense accounts at the end of each period.
 - D. are required so that the income statement accounts will be prepared to collect revenue and expense amounts for the subsequent period.
 - E. All of the above are correct.**

7. Which of the following describes the conservatism constraint?
- A. Avoid overstating assets and revenues and avoid understating expenses and liabilities.
 - B. The benefits of accounting for and reporting information should outweigh the costs.
 - C. Amounts that are large enough to influence a user's decisions.
 - D. Differences due to long-standing and accepted accounting and reporting in a particular industry.
 - E. None of the above is correct.
8. An accrual refers to an event
- A. where the expense or revenue is recorded after the cash settlement.
 - B. where the liability is recorded after the cash settlement.
 - C. where the asset is recorded after the cash settlement.
 - D. where the expense or revenue is recorded before the cash settlement.
9. The accounting principle which serves as the basis for determining when to record expenses is the
- A. matching principle.
 - B. revenue principle.
 - C. full disclosure principle.
 - D. going concern principle.
10. Under the revenue principle, a business should record revenue when the business
- A. receives an order from a customer for goods or services.
 - B. delivers goods or services to a customer.
 - C. prepares the month end closing entries.
 - D. receives payment from a customer for goods or services.
11. The accounting convention that ensures accounting information is reported at regular intervals is the
- A. revenue principle.
 - B. matching principle.
 - C. time-period concept.
 - D. full disclosure principle.
12. Which of the following statements is correct about recording transactions in a journal?
- A. Every transaction must affect at least two accounts in the accounting equation.
 - B. The equation must be in balance after each transaction is recorded.
 - C. There must be equal debit and credit parts for each transaction.
 - D. All of the above are correct.
 - E. None of the above is correct.

13. Which of the following is not a condition that must be met for revenue to be recognized (recorded) under the revenue principle?
- A. Cash must have been collected.
 - B. The earnings process is complete or nearly complete.
 - C. Collection of the receivable is reasonably assured.
 - D. An exchange transaction has taken place.
14. Which of the following statements about closing entries is not correct?
- A. Closing entries zero out the temporary accounts.
 - B. After the closing entries have been journalized and posted, only the balance sheet accounts have remaining balances.
 - C. The balances of revenue and expense accounts are closed into contributed capital.
 - D. The retained earnings account will have the proper balance to be carried forward to the next accounting year.
 - E. None of the above is incorrect.
15. The principle which states that assets acquired by the business should be recorded at their exchange price is the:
- A. objectivity principle
 - B. stable dollar principle
 - C. reliability principle
 - D. cost principle

Problem I (30 points)

PART A

On July 1, 2002, Hale Company paid for a three-year insurance premium. On that date the following journal entry was made:

Prepaid insurance4,500
Cash.....4,500

The annual accounting period ends on December 31. Give the adjusting entry that should be made on December 31, 2002.

General Journal

Entry	Description	Debit	Credit
12/31/02 AE	Insurance Expense Prepaid Insurance * = \$4,500 * (6/36)	750*	750

PART B

On November 1, 2002, Zany Company (land lord) leased some of its office space to Fox Company and immediately collected three months rent in advance of \$12,000. Zany debited cash and credited unearned rent liability for \$12,000. At the end of 2002 (end of the annual accounting period), give the adjusting entry Zany should make in respect to the rent.

General Journal

Entry	Description	Debit	Credit
12/31/02 AE	Unearned Rent Liability Rent Revenue * = \$12,000 * (2/3)	8,000*	8,000

PART C

Model Company keeps a small inventory of supplies used for cleaning and maintenance purposes. On January 1, 2002, the inventory of supplies on hand was \$7,400. During the year, supplies purchased, which amounted to \$4,100, were debited to the supplies inventory account. On December 31, 2002, the inventory count of supplies in the storeroom showed \$7,600. Give the adjusting entry required at December 31, 2002.

General Journal

Entry	Description	Debit	Credit
12/31/02 AE	Supplies Expense Supplies Inventory * = \$7,400 + \$4,100 - \$7,600	3,900*	3,900

PART D

The employees for Fuqua Corporation work Monday through Friday, and earn a total of \$1,000 a day. Payday is Friday.

What is the required adjusting entry for payroll at December 31, 2002 if the last payroll paid was Friday, December 25, 2002 and year-end is Thursday, December 31.

General Journal

Entry	Description	Debit	Credit
12/31/02 AE	Wages (Salaries) Expense Wages (Salaries) Payable * = \$1,000 * 4 days	4,000*	4,000

PART E

On March 1, 2002, Coastal Beverage purchased a beer truck for \$100,000. It is expected to last 8 years with a residual value of \$4,000. What is the adjusting entry at December 31, 2002, to record depreciation on the truck for 2002?

General Journal

Entry	Description	Debit	Credit
12/31/02 AE	Depreciation Expense Accumulated Depc. – Truck * = (100,000 – 4,000) / 8 = 12,000 Annually = 12,000 * (10/12) = 10,000	10,000*	10,000

Problem II (30 points) General Journal Problem

Greek Peak Incorporated is a ski resort in upstate New York. The company sells lift tickets, ski lessons, and ski equipment. It operates several restaurants and rents townhouses to vacationing skiers. The following hypothetical December transactions are typical of those that occur at the resort.

- a. Borrowed \$100,000 from the bank on December 1 with a six-month note a 12 percent annual interest to finance the beginning of the new season. The principal and interest are due on the maturity date.
- b. Purchased a new snow plow for \$10,000 cash on December 1. The plow is estimated to have a five-year life and a \$5,000 residual value.
- c. Purchased and received \$15,000 of ski equipment on account to sell in the ski shop.
- d. Incurred \$12,000 in routine maintenance expenses for the chair lifts; paid cash.
- e. Sold \$72,000 of season passes and received cash.
- f. Sold daily lift passes for a total of \$76,000 in cash.
- g. Sold a pair of skis for \$350 on account. (The cost of the pair was \$250.)
- h. Received a \$320 deposit on a townhouse to be rented for five days in January.
- i. Paid half the charges incurred on account in (c).
- j. Received \$200 on account from the customer in (g).
- k. Paid \$108,000 in wages to employees for the month of December.
- l. Paid a dividend to shareholders of \$1,000.

Required:

Prepare journal entries for each transaction. Do not prepare any month end adjustments.

General Journal

Entry	Description	Debit	Credit
A.	Cash Notes Payable	100,000	100,000
B.	Equipment – Snow Plow Cash	10,000	10,000
C.	Inventory Accounts Payable	15,000	15,000
D.	Maintenance Expense Cash	12,000	12,000
E.	Cash Season Pass Revenue	72,000	72,000
F.	Cash Daily Lift Pass Revenue	76,000	76,000
G.	Accounts Receivable Sales Revenue Inventory Cost of Goods Sold	350 250	350 250
H.	Cash Unearned Rent Revenue	320	320
I.	Accounts Payable Cash	7,500	7,500
J.	Cash Accounts Receivable	200	200
K.	Wages Expense Cash	108,000	108,000
L.	Dividends Cash	1,000	1,000

Short Answer – Question III (10 points)

Beer is delivered to Coastal Beverage on wooden pallets which cost about \$6.00 each. Other beer distributors record this cost as dunnage inventory. The practice is to increase inventory when received and decrease inventory when the pallet is returned to the vendor. The new Vice President of Coastal Beverage wants to expense all pallets when received. Indicate whether you agree with the new Vice President. Select two components of the conceptual framework (cost, cost benefit, materiality, conservatism, comparability, consistency, industry practice) and briefly defend your answer.