ACCOUNTING 201

CHAPTER 3

TRUE-FALSE STATEMENTS

1. Because accounting often requires estimates to be made to assess the effect of a transaction, the shorter the time period, the easier it becomes to determine the proper adjustments.

2. The time period assumption states that the economic life of a business entity can be divided into artificial time periods.

3. The time period assumption is often referred to as the matching principle.

4. A company's calendar year and fiscal year are always the same.

5. Accounting time periods that are one year in length are referred to as interim periods.

6. Income will always be greater under the cash basis of accounting than under the accrual basis of accounting.

7. The cash basis of accounting is not in accordance with generally accepted accounting principles.

8. The matching principle requires that assets be matched with liabilities.

9. Accrual basis accounting requires that expenses be recognized when incurred regardless of when paid.

10. The revenue recognition principle dictates that revenue be recognized in the accounting period in which cash is received.

Multiple Choice Questions

11. Monthly and quarterly time periods are called
    a. calender periods.
    b. fiscal periods.
    c. interim periods.
    d. quarterly periods.

12. The time period assumption states that
    a. a transaction can only affect one period of time.
    b. estimates should not be made if a transaction affects more than one time period.
    c. adjustments to the enterprise's accounts can only be made in the time period when the business terminates its operations.
    d. the economic life of a business can be divided into artificial time periods.

13. Adjustments would *not* be necessary if financial statements were prepared to reflect net income from
    a. monthly operations.
    b. fiscal year operations.
    c. interim operations.
    d. lifetime operations.

14. Management usually desires ________ financial statements and the IRS requires all businesses to file _________ tax returns.
   a. annual, annual
   b. monthly, annual
   c. quarterly, monthly
   d. monthly, monthly

15. Which of the following are in accordance with generally accepted accounting principles?
   a. Accrual basis accounting
   b. Cash basis accounting
   c. Both accrual basis and cash basis accounting
   d. Neither accrual basis nor cash basis accounting

16. Joe's Tune-up Shop follows the revenue recognition principle. Jim services a car on July 31. The customer picks up the vehicle on August 1 and mails the payment to Jim on August 5. Jim receives the check in the mail on August 6. When should Jim show that the revenue was earned?
   a. July 31
   b. August 1
   c. August 5
   d. August 6

17. Adjusting entries are
   a. not necessary if the accounting system is operating properly.
   b. usually required before financial statements are prepared.
   c. made whenever management desires to change an account balance.
   d. made to balance sheet accounts only.

18. Faraway Beltway Company pays weekly salaries for a 5-day week of $2,000 every Friday, January 31 falls on a Thursday. The monthly adjusting entry at January 31
   a. should pay salaries of $1,600.
   b. should accrue salaries of $400.
   c. should accrue salaries of $1,600.
   d. should record unearned salaries of $400.

19. On January 1, the Seigel-Jones Law Firm received a $12,000 cash retainer for legal services to be rendered ratably over the next 6 months. The full amount was credited to the liability account Unearned Legal Fees. Which of the following statements is true regarding adjusting entries for this liability account?
   a. the adjusting journal entry at the end of each month should include a debit to Unearned Legal Fees and a credit to Fees Earned for $2,000.
   b. the adjusting journal entry at the end of each month should include a debit to Unearned Legal Fees and a credit to Cash for $2,000.
   c. the adjusting journal entry at the end of January should include a debit to Unearned Legal Fees and a credit to Fees Earned for $12,000.
   d. No adjusting entries should be made until the full amount of the retainer has been earned as of June 30.

20. Adjusting entries can be classified as
   a. postponements and advances.
   b. accruals and prepayments.
   c. prepayments and postponements.
   d. accruals and advances.

21. Pleymeyer Realty generates revenue through its many rental properties. As of August 31, the company has not collected $6,000 of August rental payments because of delinquencies. The monthly adjusting journal entry at August 31
   a. is not required until the past due rent payments are collected
   b. will include a debit to Cash and a credit to Rent Revenue of $6,000.
   c. will include a debit to Unearned Rent and a credit to Rent Revenue for $200.
   d. will include a debit to Rent Receivable and a credit to Rent Revenue for $6,000.

22. At March 1, 2006, Striped Candy Delights Inc. had supplies on hand of $500. During the month, Candy purchased supplies of $1,200 and used supplies of $1,500. The March 31 adjusting journal entry should include:
   a. a debit to the supplies account for $1,500
   b. a credit to the supplies account for $500
   c. a debit to the supplies account for $1,200
   d. a credit to the supplies account for $1,500

23. Quirk-Wit Company purchased office supplies costing $4,000 and debited Office Supplies for the full amount. At the end of the accounting period, a physical count of office supplies revealed $1,600 still on hand. The appropriate adjusting journal entry to be made at the end of the period would be
   a. Debit Office Supplies Expense, $1,600; Credit Office Supplies, $1,600.
   b. Debit Office Supplies, $2,400; Credit Office Supplies Expense, $2,400.
   c. Debit Office Supplies Expense, $2,400; Credit Office Supplies, $2,400.
   d. Debit Office Supplies, $1,600; Credit Office Supplies Expense, $1,600.

24. Silver Fleet Services Company purchased equipment for $5,000 on January 1, 2006. The company expects to use the equipment for 5 years. It has no salvage value. What balance would be reported on the December 21, 2006 balance sheet for Accumulated Depreciation?
   a. $0 because Accumulated Depreciation is reported on the Income Statement
   b. $1,000
   c. $4,000
   d. $5,000

25. Hardy Parties Company purchased a computer for $2,400 on December 1. It is estimated that annual depreciation on the computer will be $480. If financial statements are to be prepared on December 31, the company should make the following adjusting entry:
   a. Debit Depreciation Expense, $480; Credit Accumulated Depreciation, $480.
   b. Debit Depreciation Expense, $40; Credit Accumulated Depreciation, $40.
   c. Debit Depreciation Expense, $1,920; Credit Accumulated Depreciation, $1,920.
   d. Debit Office Equipment, $2,400; Credit Accumulated Depreciation, $2,400

ANSWERS

True and False

1. F
2. T
3. F
4. F
5. F
6. F
7. T
8. F
9. T
10. F

Multiple Choice

11. C
12. D
13. D
14. B
15. A
16. A
17. D
18. C
19. A
20. B
21. D
22. D
23. C
24. B
25. B