

# ***ACCOUNTING 201***

## **CHAPTER 4**

### **TRUE-FALSE STATEMENTS**

1. GAAP requires the preparation of a worksheet, income statement and balance sheet.
2. If a work sheet is used, financial statements can be prepared before adjusting entries are journalized.
3. If total credits in the income statement columns of a work sheet exceed total debits, the enterprise has net income.
4. It is not necessary to prepare formal financial statements if a work sheet has been prepared because financial position and net income are shown on the work sheet.
5. The adjustments on a work sheet can be posted directly to the accounts in the ledger from the work sheet.
6. The adjusted trial balance columns of a work sheet 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 work sheet.
8. Closing entries transfer net income or net loss into retained earnings.
9. The dividends account is closed to the Income Summary account in order to properly determine net income (or loss) for the period.
10. Accounts Receivable is a permanent account.

### **MULTIPLE CHOICE QUESTIONS**

11. Preparing a work sheet involves
  - a. two steps.
  - b. three steps.
  - c. four steps.
  - d. five steps.
12. The adjustments entered in the adjustments columns of a work sheet 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 work sheet is completed.

13. The information for preparing a trial balance on a work sheet is obtained from
  - a. financial statements.
  - b. general ledger accounts.
  - c. general journal entries.
  - d. business documents.
  
14. An adjusted trial balance
  - a. is prepared after the financial statements have been prepared.
  - b. proves the equality of the debits and the credits of the ledger accounts.
  - c. is required by GAAP.
  - d. is prepared after the post-closing trial balance.
  
15. The income statement columns of the DelMonico Company's worksheet reports total debits of \$50,000 and total credits of \$35,000. This means that
  - a. the company earned net income of \$15,000 for the period.
  - b. the worksheet has an error because debits do not equal credits.
  - c. the company has a net loss of \$15,000
  - d. distributions to owners for the period totalled \$15,000.

Use the following information from the Income Statement for the month of June, 2006 of Little's Housesitting Enterprises to answer questions 16-20.

|                     |            |                       |  |
|---------------------|------------|-----------------------|--|
| Revenues            |            | \$7,000               |  |
| Expenses:           |            |                       |  |
| Wages Expense       | \$2,000    |                       |  |
| Advertising Expense | 200        |                       |  |
| Rent Expense        | 1,000      |                       |  |
| Supplies Expense    | 300        |                       |  |
| Insurance Expense   | <u>100</u> |                       |  |
| Total expenses      |            | <u>3,600</u>          |  |
| Net income          |            | <u><u>\$3,400</u></u> |  |

16. The entry to close the revenue account includes
  - a. a debit to Income Summary for \$3,400.
  - b. a credit to Income Summary for \$3,400.
  - c. a debit to Income Summary for \$7,000.
  - d. a credit to Income Summary for \$7,000.
  
17. The entry to close the expense accounts includes
  - a. a debit to Income Summary for \$3,400.
  - b. a credit to Rent Expense for \$1,000,
  - c. a credit to Income Summary for \$3,600.
  - d. a debit to Wages Expense for \$2,000.
  
18. 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.

19. The entry to close Income Summary to Retained Earnings includes
- a debit to Revenue for \$7,000.
  - credits to Expenses totalling \$3,600.
  - a credit to Income Summary for \$3,400
  - a credit to Retained Earnings for \$3,400.
20. At June 1, 2006, Pet Sitters reported Retained Earnings of \$35,000. The company paid no dividends during June. At June 30, 2006, the company will report a Retained Earnings balance of
- \$35,000 credit.
  - \$42,000 credit.
  - \$38,400 credit.
  - \$31,600 credit.
21. Cole Fast Company paid the weekly payroll on January 2 by debiting Wages Expense for \$40,000. The accountant preparing the payroll entry overlooked the fact that Wages Expense of \$24,000 had been accrued at year end on December 31. The correcting entry is
- |                        |        |        |
|------------------------|--------|--------|
| a. Wages Payable ..... | 24,000 |        |
| Cash .....             |        | 24,000 |
| b. Cash .....          | 16,000 |        |
| Wages Expense .....    |        | 16,000 |
| c. Wages Payable ..... | 24,000 |        |
| Wages Expense .....    |        | 24,000 |
| d. Cash .....          | 24,000 |        |
| Wages Expense .....    |        | 24,000 |
22. Tyler Company paid \$630 on account to a creditor. The transaction was erroneously recorded as a debit to Cash of \$360 and a credit to Accounts Receivable, \$360. The correcting entry is
- |                              |     |     |
|------------------------------|-----|-----|
| a. Accounts Payable .....    | 630 |     |
| Cash .....                   |     | 630 |
| b. Accounts Receivable ..... | 360 |     |
| Cash .....                   |     | 360 |
| c. Accounts Receivable ..... | 360 |     |
| Accounts Payable .....       |     | 360 |
| d. Accounts Receivable ..... | 360 |     |
| Accounts Payable .....       | 630 |     |
| Cash .....                   |     | 990 |

## ANSWERS

### True and False

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

### Multiple Choice

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