

**AC240-01**  
**Quiz – Adjusting Entries**

**Multiple choice***Circle the correct answer*

1. In accrual accounting, an expense is recognized when it is:
  - a. paid
  - b. posted to the general ledger
  - c. incurred
  - d. either b or c
  
2. In cash basis accounting, revenue is recognized when it is:
  - a. received
  - b. earned
  - c. posted to the general ledger
  - d. either b or c
  
3. On December 1, 20X1, your calendar year firm receives \$12,000 in advance for work to be performed evenly over the next 12 months. Under the cash and accrual methods, respectively, this revenue will be reported on the 20X1 income statement as:
  - a. \$1,000 and \$1,000
  - b. \$12,000 and \$12,000
  - c. \$1,000 and \$12,000
  - d. \$12,000 and \$1,000
  
4. The journal entry to accrue \$500 commissions' revenue is:
 

a. Cash	500	
Commissions Revenue		500
b. Commissions Revenue	500	
Cash		500
c. Commissions Revenue	500	
Accounts Receivable		500
d. Accounts Receivable	500	
Commissions Revenue		500
  
5. Several years ago, your calendar year company issued a \$15,000 note at 8% a year interest due each July 31. If no interest is received this year, what journal entry do you record at year end?
 

a. Interest Receivable	500	
Deferred Revenue		500
b. Interest Receivable	1,200	
Deferred Revenue		1,200
c. Interest Receivable	1,200	
Interest Revenue		1,200
d. Interest Receivable	500	
Interest Revenue		500

6. As of year end, your firm was owed \$4,000 for work completed, but had received only \$1,500, that you credited to Revenue. By what amount must the balance in Revenue be adjusted at year end?
- \$4,000
  - \$1,500
  - \$2,500
  - \$0
7. Your company performs work for a customer, but as of year end, has received no payment. If you do not record an adjusting entry at year end, how will the financial statements be affected?
- |    | <u>Net income</u> | <u>Assets</u> | <u>Liabilities</u> |
|----|-------------------|---------------|--------------------|
| a. | overstated        | not affected  | understated        |
| b. | overstated        | overstated    | not affected       |
| c. | understated       | not affected  | overstated         |
| d. | understated       | understated   | not affected       |
8. Your company has a 5-day workweek and a weekly payroll of \$35,000 that it distributes each Friday. When an accounting period ends on a Thursday, which of the following entries will you record?
- |    |                |        |        |
|----|----------------|--------|--------|
| a. | Salary Payable | 14,000 |        |
|    | Salary Expense |        | 14,000 |
| b. | Salary Expense | 14,000 |        |
|    | Salary Payable |        | 14,000 |
| c. | Salary Payable | 28,000 |        |
|    | Salary Expense |        | 28,000 |
| d. | Salary Expense | 28,000 |        |
|    | Salary Payable |        | 28,000 |
9. On November 1, your calendar year firm receives a \$5,000 invoice for magazine ads that will run for the next 5 months. If you remit \$1,000 on November 1 and debit Advertising Expense, then pay the remainder in January, which of the following entries will you record at year end?
- |    |                     |       |       |
|----|---------------------|-------|-------|
| a. | Advertising Expense | 1,000 |       |
|    | Cash                |       | 1,000 |
| b. | Advertising Expense | 2,000 |       |
|    | Advertising Payable |       | 2,000 |
| c. | Advertising Expense | 1,000 |       |
|    | Advertising Payable |       | 1,000 |
| d. | Advertising Expense | 5,000 |       |
|    | Advertising Payable |       | 5,000 |

10. On November 1, 20X4, you record a \$20,000 note receivable, debiting Cash and crediting Notes Payable. The note matures on May 1, 20X5 when principal and accrued interest of 6% a year is due. On December 31, 20X4, your adjusting entry for accrued interest will include:
- a debit to Interest Payable for \$400
  - a debit to Interest Expense for \$200
  - a credit to Interest Payable for \$400
  - none of the above
11. Your company receives a \$75,000 advance for 1 year's rent that you record in Rent Received In Advance. If, at year end, 3 months have elapsed, what adjusting entry will you record?
- |                          |        |        |
|--------------------------|--------|--------|
| Rent Revenue             | 18,750 |        |
| Rent Received in Advance |        | 18,750 |
  - |                          |        |        |
|--------------------------|--------|--------|
| Rent Revenue             | 56,250 |        |
| Rent Received in Advance |        | 56,250 |
  - |                          |        |        |
|--------------------------|--------|--------|
| Rent Received in Advance | 18,750 |        |
| Rent Revenue             |        | 18,750 |
  - |                          |        |        |
|--------------------------|--------|--------|
| Rent Received in Advance | 56,250 |        |
| Rent Revenue             |        | 56,250 |
12. On October 11, your firm receives a \$7,500 down-payment toward a \$15,000 video your firm will produce, and you book it in Unearned Revenue. If, at year end, 20% of the work is completed, what adjusting entry will you record?
- |                  |       |       |
|------------------|-------|-------|
| Unearned Revenue | 3,000 |       |
| Revenue          |       | 3,000 |
  - |         |       |       |
|---------|-------|-------|
| Cash    | 3,000 |       |
| Revenue |       | 3,000 |
  - |                  |       |       |
|------------------|-------|-------|
| Revenue          | 3,000 |       |
| Unearned Revenue |       | 3,000 |
  - |                  |       |       |
|------------------|-------|-------|
| Unearned Revenue | 1,500 |       |
| Revenue          |       | 1,500 |
13. In June, your calendar year company pays \$1,200 for a 1-year insurance policy that you recorded in Prepaid Insurance. If you do not record an adjusting entry at year end, how will the financial statements be affected?
- |    | <u>Net income</u> | <u>Assets</u> | <u>Liabilities</u> |
|----|-------------------|---------------|--------------------|
| a. | overstated        | not affected  | understated        |
| b. | overstated        | overstated    | not affected       |
| c. | understated       | not affected  | overstated         |
| d. | understated       | understated   | not affected       |

14. In October, your calendar year company pays \$1,200 for 1 year's rent that you recorded in Rent Expense. If you do not record an adjusting entry at year end, how will the financial statements be affected?

	<u>Net income</u>	<u>Assets</u>	<u>Liabilities</u>
a.	overstated	not affected	understated
b.	overstated	overstated	not affected
c.	understated	not affected	overstated
d.	understated	understated	not affected

15. On August 1, 20X8, your calendar year firm takes out a 3-year insurance policy at a total cost of \$3,600 that requires a 50% down-payment and the remainder after 6 months. Insurance expense for 20X8 is:

- a. \$500
- b. \$600
- c. \$1,200
- d. \$1,800

16. Company A has a fixed asset with an original cost of \$300,000, a residual value of \$25,000 and a useful life of 10 years. The company also has land with an original cost of \$1,000,000. Under the straight-line method, the journal entry to record the annual depreciation expense is:

a.	Depreciation Expense	27,500	
	Accumulated Depreciation		27,500
b.	Depreciation Expense	30,000	
	Fixed Asset		30,000
c.	Depreciation Expense	26,000	
	Accumulated Depreciation		26,000
d.	Depreciation Expense	5,000	
	Accumulated Depreciation		5,000

17. Company B estimates bad debt expense at 2% of credit sales, which were \$610,000 for the year. The journal entry to record bad debt expense is:

a.	Bad Debt Expense	8,580	
	Allowance for Doubtful Accounts		8,580
b.	Allowance for Doubtful Accounts	8,580	
	Bad Debt Expense		8,580
c.	Bad Debt Expense	12,200	
	Allowance for Doubtful Accounts		12,200
d.	Allowance for Doubtful Accounts	5,720	
	Bad Debt Expense		5,720

Name: \_\_\_\_\_

18. If, at year end, the balance in A/R is \$920,000, of which 5% is estimated to be uncollectible, and the Allowance for Doubtful Accounts has a credit balance of \$34,000, the journal entry to record bad debt expense is:
- |    |                                 |        |        |
|----|---------------------------------|--------|--------|
| a. | Bad Debt Expense                | 46,000 |        |
|    | Allowance for Doubtful Accounts |        | 46,000 |
| b. | Allowance for Doubtful Accounts | 46,000 |        |
|    | Bad Debt Expense                |        | 46,000 |
| c. | Bad Debt Expense                | 12,000 |        |
|    | Allowance for Doubtful Accounts |        | 12,000 |
| d. | Allowance for Doubtful Accounts | 12,000 |        |
|    | Bad Debt Expense                |        | 12,000 |
19. If your firm estimates bad debt expense as 2% of credit sales, which are \$286,000 for the year, and the Allowance for Doubtful Accounts has a debit balance of \$2,860, how do you record bad debt expense?
- |    |                                 |       |       |
|----|---------------------------------|-------|-------|
| a. | Bad Debt Expense                | 8,580 |       |
|    | Allowance for Doubtful Accounts |       | 8,580 |
| b. | Allowance for Doubtful Accounts | 8,580 |       |
|    | Bad Debt Expense                |       | 8,580 |
| c. | Bad Debt Expense                | 5,720 |       |
|    | Allowance for Doubtful Accounts |       | 5,720 |
| d. | Allowance for Doubtful Accounts | 5,720 |       |
|    | Bad Debt Expense                |       | 5,720 |
20. Adjusting entries:
- a. always involve two income statement accounts
  - b. always involve a balance sheet account and an income statement account
  - c. never involve cash
  - d. both b and c
21. Which of the following accounts has a normal debit balance?
- a. Rent Receivable
  - b. Interest Payable
  - c. Prepaid Legal Fees
  - d. both a and c
22. Which of the following accounts has a normal credit balance?
- a. Accumulated Depreciation
  - b. Unearned Revenue
  - c. Supplies On-Hand
  - d. both a and b

Questions 23-26: MidCo is a calendar year company. Below is its partial worksheet for, for the year ended December 31, 20X8. Use the data to answer the next four questions.

	Unadjusted trial balance		Adjustments		Adjusted trial balance	
	Dr	Cr	Dr	Cr	Dr	Cr
Accounts Receivable	50,000					
Allow. For Doubtful Accounts	2,000					
Supplies On Hand	1,500					
Wages Payable				1,000		
Notes Payable		20,000				
Bad Debt Expense						
Supplies Expense			600			
Wage Expense	4,000					

23. If the partial adjustment to Wages Payable is correct, what is the adjusted balance in Wage Expense?
  - a. \$4,000
  - b. \$5,000
  - c. \$3,000
  - d. \$1,000
  
24. If the adjustment to Supplies Expense is correct, what is the adjusted balance in Supplies On Hand?
  - a. \$1,500
  - b. \$2,100
  - c. \$1,900
  - d. \$900
  
25. If the company estimates 4% of Accounts Receivable to be uncollectible, what is the debit to Bad Debt Expense in the adjustments column?
  - a. \$0
  - b. \$2,000
  - c. \$4,000
  - d. \$1,000
  
26. On July 1, 20X6, the company borrowed \$20,000 and must repay principal and accrued interest of 10% a year on July 1, 20X9. Based on this information, the debit to Interest Expense in the Adjustments column is:
  - a. \$0
  - b. \$1,000
  - c. \$2,000
  - d. \$4,000