Review questions

1. When recording the year-end adjusting entries for bad debt expense, you should
   a. Decrease allowance for doubtful accounts
   b. Increase allowance for doubtful accounts
   c. Decrease bad debt expense
   d. Increase accounts receivable

2. Revenue is always recognized when
   a. Expenses are paid
   b. End of the period arrives
   c. It is earned
   d. Cash is collected

3. Which of the following statements is true?
   a. Balance sheet reports revenues and expenses
   b. Income statement reports operating and investing activities
   c. The statement of retained earnings reports dividends
   d. The statement of cash flows reports revenues and expenses

4. Purchase a machine for $75,000 with a useful life of 10 years. The company uses double declining balance. What is accumulated depreciation in year 2 if the salvage value is $5,000?

5. Which of the following is true?
   a. Book value at the end of the asset's useful life will be the same under all depreciation methods
   b. Total depreciation in the accumulated depreciation account will be the same at the end of the useful life under all methods
   c. Annual depreciation expense will differ under differing methods of recording depreciation
   d. All the above are true

6. The primary objective of financial accounting is to…

7. Why are adjusting entries necessary?

8. When a concert promotions company collects cash for ticket sales two months in advance of the show date, which of the following is involved?
   a. Accounts payable
b. Accounts receivable

c. Prepaid expense

d. Unearned revenue

Scotts Lawn Service borrowed $10,000 from 3rd National Bank on November 1, 2001. The loan is for a term of three years and carries a 10% rate of interest. Interest is due at the maturity of the loan. To properly accrue interest expense in 2001, Scott should:

a. Do nothing as the loan is not due until November 2004
b. Recognize Interest Expense for 2 of the loan’s 36 month term
c. Recognize Interest Expense for 12 of the loan’s 36 month term
d. Recognize Interest Expense for 10 of the loan’s 36 month term

On November 1 The Foundry received $30,000 from a tenant for 6 months of rent beginning November 1 and ending April 30 of the next year. The $30,000 was recorded as a liability. What is the adjusting entry that The Foundry would need to record on December 31?

At the beginning of the month, the supplies balance was $12,000 for Gerdin Company. During the period, the company purchased $5,000 of supplies. The ending balance in supplies was $7,000. What is the adjusting entry for the period?

The income statement of ABC corp. Reported net income of $60,000, cost of goods sold of $85,000 and operating expenses of $21,000. There were no other revenues (expenses) reported for the period. The company has an income tax rate of 25%. Based on this information, what amount was reported for income before tax? What was the amount reported for sales?

Cyclone Corporation has the following inventory records for the year

Beginning Inventory 200 units @ $22 each
February 10 purchase 120 units @ $21
April 20 sold 130 units @ $45 each
June 24 purchase 220 units @ $24 each
October 8 sold 120 units @ $45 each

Compute COGS and ending inventory for the year under FIFO, LIFO, and WAC.

Cyclone Corporation has the following inventory records for the year

Beginning Inventory 300 units @ $25 each
February 10 purchase 220 units @ $24
April 20 sold 170 units @ $44 each
June 24 purchase 220 units @ $24 each
October 8 sold 140 units @ $45 each

Compute COGS and ending inventory for the year under FIFO, LIFO, and WAC.
On January 1, 2014, Clem Corp. sold a 5 year, $20,000, 7% bond. Interest is payable annually. The issue price was $19,336 based on a 8% market rate. What is the amortization of the discount for 2016?

Clem Corp. bought a computer for $10,000. The estimate used life was 5 years and there was no residual value. The computer is depreciated via straight line depreciation. The computer was sold at the end of the fourth year for $3,000 cash. What is the gain or loss?