

Adjusting Entries

Question	Answer
Under accrual basis accounting, you recognize revenue . . .	when you have earned the revenue
Under accrual basis accounting, you recognize an expense when you have . . .	incurred the expense
Under accrual basis accounting, revenues presented on the income statement are . . .	revenues earned during the year
Under accrual basis accounting, expenses presented on the income statement are . . .	expenses incurred during the year
To accrue revenue at year end is to record . . .	the amount earned for which payment has not been received.
To defer revenue is to . . .	postpone recording a customer's payment as revenue until it is earned.
To accrue an expense is to record . . .	an expense incurred but not yet paid for
To recognize revenue or an expense is to . . .	record the amount in the general ledger
Make an adjusting entries to accrue: interest revenue of \$50, commission revenue earned (\$100), rental revenue (\$200).	Dr. Int Receivable & Cr. Int. Revenue Dr. Commission receivable & Cr. Commission Rev. Dr. Rent Receivable & Cr. Rent Revenue
If you omit the adjusting entry to accrue revenue you (over or understate) your firm's net income?	Understate
Interest receivable is what type of account . . .	Asset
If you omit the adjusting entry to accrue revenue what effect does this have on liabilities?	none
When revenue is accrued cash is received (before/after) revenue is recognized.	After
Your Co. holds a \$100,000 11% note receivable on which it has collected \$8,000 interest during the year. What adjusting entry do you record at year end?	Dr. Int Receivable \$3,000 & Cr. Int. Revenue \$3,000
Receivables are what type of accounts ?	Assets
The adjusting entry to accrue revenue has what affect on cash?	No effect.
All accrued expenses involve what two types of accounts?	expense and payable
To accrue salaries the journal entry is . . .	Dr. Salary Exp. & Cr. Salary Payable
Your Co. has a 5 day workweek and payday is every Friday. Weekly salaries are \$10,000 and your company contributes 5% of salaries to the pension fund. Make the adjusting entry if the accounting period ends Thurs.	Dr. Salary Exp. \$8,000 & Cr. Salary Payable Dr. Pension expense \$500 & Cr. Pension payable
Your Co. borrows \$60,000 on a 10 month 8% note July 1. Year end is October 31. Record accrued interest 10/31	Dr. Interest exp. \$1,600 & Cr. Interest Payable
What kind of account is taxes payable?	Liability
If a company forgets to accrue an expense how does it affect net income?	NI is overstated
If a company forgets to accrue an expense how does it affect net income?	
An accrued expense is one that has been incurred, but not ____.	Paid
Expenses are incurred by debiting a ___ account & crediting a ___ account.	Dr. expense & cr. Payable.

Adjusting entries to accrue expense (increase/decrease) net income?	Decrease
Accrued expenses appear on the balance sheet as . . .	Liability
You received a \$24,000 advance for 1 year's rent and credited rent revenue. At year end, 4 months have passed, what adjusting entry is required?	Dr. Rent Revenue 16k & Cr. Unearned Rev. 16k (24,000 / 12 mo = \$2k mo x 4 = 8k earned)
Your Co. receives a \$10,000 advance on a \$20,000 job and credits unearned revenue. At year end you've completed 15% of the job. What adjusting entry is required.	Dr. Unearned Rev \$3k & Cr. Service Revenue 3k
Unearned revenue is also known as . . .	Deferred revenue; revenue received in advance; revenue collected in advance.
Unearned revenue is what type of account?	Liability
For rent received in advance, debit _____ & credit _____.	Cash & Unearned Rent Revenue
Your Co. collects cash in advance of performing services and credits revenue. If it omits the adjusting entry then liabilities will be	Understated
Your Co. collects cash in advance and credits deferred revenue. Then it completes part of the work. If it omits an adjusting entry then liabilities will be . . .	Overstated
Your Co. collects cash in advance and credits revenue. Then it completes part of the work, but fails to record an adjusting entry. Net income is _____ (over/understated).	overstated
Your Co. prepays \$3,000 of rent for 1 year and debits Rent Expense. Your company's year ends 5 months later. Record the adjusting entry.	Dr. Prepaid Rent 1,750 & Cr. Rent Expense 1,750
Unexpired insurance is an _____ account.	Asset
Supplies on hand is an _____ account.	Asset
For Prepaid Expenses, cash is paid (before/after) the expense is incurred.	Before
Your Co. buys \$20,000 of supplies and debits supplies expense. At year end there are \$7,000 of supplies on hand. What adjusting entry is required?	Dr. Supplies \$7k; Cr. Supplies Expense 7k
Your Co. buys \$15,000 of supplies and debits supplies on hand. If Your Co. doesn't record the adjustment, total assets are (under/overstated)	Overstated
Your Co. buys \$15,000 of supplies and debits supplies expense. If Your Co. doesn't record the adjustment, total assets are (under/overstated)	Understated
Expenses are booked (recorded) when they are _____.	Incurred.
Your Co. prepays insurance and debits insurance expense. If part of the time period has elapsed and you don't record an adjusting entry, net income will be (over/understated).	Understated
Assets that are depreciated are known as _____ assets.	Operational
A piece of equipment costs \$22,000. It's estimated residual value is \$4,000 and it is estimated to have a 6 year life. If the company uses straight-line depreciation, then depreciation each year will be . . .	$(\$22,000 - 4,000) / 6 = 3,000$ yr
Your Co. had credit sales of \$200,000 and A/R of \$15,000. Bad debts are estimated at 1% of credit sales. The allowance account has a credit balance of \$500. What adjusting entry is required to record bad debts at yr end?	Dr. Bad debt expense \$2,000 (200,000 x .01 = 2,000) & Cr. Allowance doubtful accounts 2,000

Your Co. had credit sales of \$300,000 and A/R of \$20,000. Bad debts are estimated at 4% of A/R. The allowance account has a credit balance of \$100. What adjusting entry is required to record bad debts at year end?	Dr. Bad debt exp. \$700 ($20,000 \times .04 = 800 - 100 = 700$) & Cr. Allowance for doubtful accounts 700
Your Co. had credit sales of \$500,000 and A/R of \$30,000. Bad debts are estimated at 5% of A/R. The allowance account has a debit balance of \$100. What adjusting entry is required to record bad debts at year end?	Dr. Bad debt exp. \$1,600 ($30k \times .05 = 1.5k + 100$) & Cr Allowance Doubtful Accounts 1,600
Your Co. had credit sales of \$100,000 and A/R of \$10,000. Bad debts are estimated at 3% of credit sales. The allowance account has a debit balance of \$100. What adjusting entry is required to record bad debts at yr end?	Dr. Bad debt expense \$3,000 ($100k \times .03 = 3,000$) & Cr. Allowance for doubtful accounts 3,000
A piece of machinery costs \$10,000. It's estimated residual value is \$1,000 and it is estimated to have a 9 year life. If the company uses straight-line depreciation, the annual adjusting entry would be . . .	Dr. depreciation expense & Cr. Accumulated depreciation \$1,000
The direct writeoff method of accounting for bad debts is (OK/Not OK) for tax purposes & (OK/Not OK) for GAAP purposes.	OK & Not OK
Allowance for doubtful accounts is what type of account?	contra asset
When an allowance for doubtful accounts has a debit balance it means . . .	In prior years bad debts were underestimated.
Net realizable value of A/R is	A/R minus Allowance for doubtful accounts
To write off an A/R that is uncollectible under the allowance method you would . . .	Dr. Allowance Dbfl Accts & Cr. A/R
An unadjusted trial balance shows accounts listed in what order . . .	Assets, liabilities, equity, revenues, expenses
Adjusting entries make expense and revenue accounts current as of . . .	The cutoff or balance sheet date.
Your Company pays its employees a total of \$5,000 every Friday for a 5 day workweek. If the period ends on a Thursday, what adjustment is required?	Dr. Salary/Wage expense 4,000 & Cr. Salary/Wages Payable
Adjusting entries are necessary when the (cash/accrual) basis of accounting is used	Accrual
Adjusting entries are usually recorded in the general journal (before/after) they are entered in the worksheet.	After
Adjusting entries always involve a _____ account and a _____ account.	Income statement & balance sheet
Adjusting entries (never/sometimes) involve cash.	Never!
Your company's 12/31/10 unadjusted trial balance shows a prepaid insurance balance of \$3,600 which represents 18 months of insurance prepaid on 1/1/10. What adjusting entry needs to be made on 12/31/10 (assuming no previous adjustments)?	Dr. Insurance Exp. 2,400 & Cr. Prepaid insurance 2,400 ($3,600/18mo = 200 mo \times 12 months expired = 2,400$)
Your Company borrowed \$15,000 at 8% interest and signed a 5 year note last year. On the 12/31/10 unadjusted trial balance interest expense had a \$900 balance and there was nothing in interest payable. What year end adjusting entry is required?	Dr. interest expense \$300 & Cr. Interest payable 300 $\$15,000 \times .08 = 1,200 - 900$ already paid = 300 owed
Your Company received a \$20,000 advance on a \$50,000 job and credited revenue. At year end, 15% of the job was complete. What journal entry is required?	Dr. Revenue 12,500 & Cr. Unearned Rev 12,500 ($\$50,000 \times 15\% = 7,500$ earned & $20k - 7.5k = 12.5$ unearned)