

Chapter 4 | Practice Questions

Adjustments and financial statements

Report to me (yu10j@cmich.edu) if you spot critical errors.

Set 1 | Why an Adjustment Is Needed INDEPENDENT Two rounds of the same four pairings.

Q1. Match each situation to the **pair of reasons** that requires an adjustment.

Situation	Answer
1. Delta Airlines provided flights this month for customers who paid cash last month for tickets.	_____
2. GSD&M completed work on an advertising campaign that will be collected next month.	_____
3. Snap received a telephone bill for services this month, which must be paid next month.	_____
4. The TGR Foundation used up some of the benefits of its 35,000-square-foot building.	_____

Choices:

- A. Revenue (because liability fulfilled)
- B. Revenue (because asset acquired)
- C. Expense (because liability incurred)
- D. Expense (because asset used up)
- E. None of the above

Q2. Match each situation to the **pair of reasons** that requires an adjustment.

Situation	Answer
1. IBM completed a consulting project for the CDC to simulate the spread of contagious viruses and will be paid next month.	_____
2. This month Apple, Incorporated, redeemed iTunes gift cards that had been issued last month.	_____
3. Riddell Sports used up some of the benefits of its football helmet manufacturing equipment.	_____
4. Procter & Gamble received a bill for this month's advertising services, which it will pay next month.	_____

Choices:

- A. Revenue (because liability fulfilled)
- B. Revenue (because asset acquired)
- C. Expense (because liability incurred)
- D. Expense (because asset used up)
- E. None of the above

Answers, Set 1:

Q1. 1 A 2 B 3 C 4 D

Q2. 1 B 2 A 3 D 4 C

Set 2 | Types of Adjustments INDEPENDENT One dimension per question.

Q1. Each transaction requires an adjustment at year-end. Match each transaction with the type of adjustment that will be required.

Transaction	Answer
1. Supplies for office use were purchased during the year for \$500, of which \$100 remained on hand (unused) at year-end.	_____
2. Interest of \$250 on a note receivable was earned at year-end, although collection of the interest is not due until the following year.	_____
3. At year-end, salaries and wages payable of \$3,600 had not been recorded or paid.	_____
4. At year-end, one-half of a \$2,000 advertising project had been completed for a client, but nothing had been billed or collected.	_____
5. During the year, a gift card was redeemed for \$600 of services.	_____

Choices: A. Deferral Adjustment B. Accrual Adjustment

Q2. For each transaction, does the year-end adjustment record **revenue** or an **expense**?

Transaction	Answer
1. Supplies for office use were purchased during the year for \$500, of which \$100 remained on hand (unused) at year-end.	_____
2. Interest of \$250 on a note receivable was earned at year-end, although collection of the interest is not due until the following year.	_____
3. At year-end, salaries and wages payable of \$3,600 had not been recorded or paid.	_____
4. At year-end, one-half of a \$2,000 advertising project had been completed for a client, but nothing had been billed or collected.	_____
5. During the year, a gift card was redeemed for \$600 of services.	_____

Choices: A. Revenue B. Expense

Answers, Set 2:

Q1. 1 A 2 B 3 B 4 B 5 A

Q2. 1 B 2 A 3 B 4 A 5 A

Set 3 | Five Adjusting Entries INDEPENDENT One transaction per view.

Record the adjusting entry for each item at year-end.

- 1. Supplies for office use were purchased during the year for \$500, of which \$100 remained on hand (unused) at year-end.
- 2. Interest of \$250 on a note receivable was earned at year-end, although collection of the interest is not due until the following year.
- 3. At year-end, salaries and wages payable of \$3,600 had not been recorded or paid.
- 4. At year-end, one-half of a \$2,000 advertising project had been completed for a client, but nothing had been billed or collected.
- 5. During the year, a gift card was redeemed for \$600 of services.

Q1. Determine the amount of each adjustment at year-end.

	A	B	C	D	E
1. Supplies used during the year	\$100	\$250	\$400	\$500	\$600
2. Advertising revenue earned on the project	\$250	\$400	\$600	\$1,000	\$2,000

Q2. 1. Supplies for office use were purchased during the year for \$500, of which \$100 remained on hand (unused) at year-end. Choose the correct account for each blank.

General Journal	Debit	Credit
(a) _____	400	
(b) _____		400

Q3. 2. Interest of \$250 on a note receivable was earned at year-end, although collection of the interest is not due until the following year. Choose the correct account for each blank.

General Journal	Debit	Credit
(a) _____	250	
(b) _____		250

Q4. 3. At year-end, salaries and wages payable of \$3,600 had not been recorded or paid. Choose the correct account for each blank.

General Journal	Debit	Credit
(a) _____	3,600	
(b) _____		3,600

Q5. 4. At year-end, one-half of a \$2,000 advertising project had been completed for a client, but nothing had been billed or collected. Choose the correct account for each blank.

General Journal	Debit	Credit
(a) _____	1,000	
(b) _____		1,000

Q6. 5. During the year, a gift card was redeemed for \$600 of services. Choose the correct account for each blank.

General Journal	Debit	Credit
(a) _____	600	
(b) _____		600

Accounts

Choose the correct account for each blank. An account may be used more than once, or not at all.

- A. Accounts Payable
- B. Accounts Receivable
- C. Deferred Revenue
- D. Interest Receivable
- E. Interest Revenue
- F. Salaries and Wages Expense
- G. Salaries and Wages Payable
- H. Service Revenue
- I. Supplies
- J. Supplies Expense

Answers, Set 3:

Q1. 1 C 2 D

Q2. (a) **J.** Supplies Expense (b) **I.** Supplies

Q3. (a) **D.** Interest Receivable (b) **E.** Interest Revenue

Q4. (a) **F.** Salaries and Wages Expense (b) **G.** Salaries and Wages Payable

Q5. (a) **B.** Accounts Receivable (b) **H.** Service Revenue

Q6. (a) **C.** Deferred Revenue (b) **H.** Service Revenue

Set 4 | Accrual Adjustments INDEPENDENT One transaction per view.

New Idea Corporation records the following adjustments on July 31:

- a. Received a \$600 utility bill for electricity usage in July to be paid in August.
- b. Owed wages to 10 employees who worked three days at \$100 each per day at the end of July. The company will pay employees at the end of the first week of August.
- c. On July 1, loaned money to an employee who agreed to repay the loan in one year, plus \$1,200 of interest for one year. No interest has been recorded yet.

Q1. Determine each amount for the month ended July 31.

	A	B	C	D	E
1. Wages owed at July 31	\$100	\$300	\$600	\$1,000	\$3,000
2. Interest earned in July	\$100	\$600	\$1,100	\$1,200	\$1,300

Q2. a. Received a \$600 utility bill for electricity usage in July, to be paid in August. Record the adjusting entry at July 31. Choose the correct account for each blank.

General Journal	Debit	Credit
(a) _____	600	
(b) _____		600

Q3. b. Owed wages to 10 employees who worked three days at \$100 each per day at the end of July, to be paid in the first week of August. Record the adjusting entry at July 31. Choose the correct account for each blank.

General Journal	Debit	Credit
(a) _____	3,000	
(b) _____		3,000

Q4. c. On July 1, loaned money to an employee who agreed to repay the loan in one year, plus \$1,200 of interest for one year. No interest has been recorded yet. Record the adjusting entry at July 31. Choose the correct account for each blank.

General Journal	Debit	Credit
(a) _____	100	
(b) _____		100

Accounts

Choose the correct account for each blank. An account may be used more than once, or not at all.

- A. Accounts Payable
- B. Cash
- C. Interest Payable
- D. Interest Receivable
- E. Interest Revenue
- F. Notes Receivable
- G. Prepaid Expenses
- H. Salaries and Wages Expense
- I. Salaries and Wages Payable
- J. Utilities Expense

Answers, Set 4:

Q1. 1 E 2 A

Q2. (a) J. Utilities Expense (b) A. Accounts Payable

Q3. (a) H. Salaries and Wages Expense (b) I. Salaries and Wages Payable

Q4. (a) D. Interest Receivable (b) E. Interest Revenue

Set 5 | Deferral Adjustments INDEPENDENT One transaction per view.

Sky Blue Corporation records the following adjustments on October 31:

- **a.** Collected \$2,400 rent for the period October 1 to December 31, which was credited to Deferred Revenue on October 1.
- **b.** Paid \$1,200 for a two-year insurance premium on October 1 and debited Prepaid Insurance for that amount.
- **c.** Used a machine purchased on October 1 for \$48,000. The company estimates annual depreciation of \$4,800.

Q1. Determine the amount for the **one month** ended October 31.

	A	B	C	D	E
1. Rent revenue earned	\$400	\$800	\$1,200	\$1,600	\$2,400
2. Insurance expense	\$50	\$100	\$1,150	\$1,200	\$2,400
3. Depreciation expense	\$400	\$800	\$4,400	\$4,800	\$48,000

Q2. **a.** Collected \$2,400 rent for October 1 to December 31, credited to Deferred Revenue on October 1. Record the adjusting entry at October 31. Choose the correct account for each blank.

General Journal	Debit	Credit
(a) _____	800	
(b) _____		800

Q3. **b.** Paid \$1,200 on October 1 for a two-year insurance premium and debited Prepaid Insurance for that amount. Record the adjusting entry at October 31. Choose the correct account for each blank.

General Journal	Debit	Credit
(a) _____	50	
(b) _____		50

Q4. **c.** Used a machine purchased on October 1 for \$48,000, with estimated annual depreciation of \$4,800. Record the adjusting entry at October 31. Choose the correct account for each blank.

General Journal	Debit	Credit
(a) _____	400	
(b) _____		400

Accounts

Choose the correct account for each blank. An account may be used more than once, or not at all.

- A. Accounts Payable
- B. Accumulated Depreciation
- C. Cash
- D. Deferred Revenue
- E. Depreciation Expense
- F. Equipment
- G. Insurance Expense
- H. Prepaid Insurance
- I. Rent Expense
- J. Rent Revenue

Answers, Set 5:

Q1. 1 B 2 A 3 A

Q2. (a) **D.** Deferred Revenue (b) **J.** Rent Revenue

Q3. (a) **G.** Insurance Expense (b) **H.** Prepaid Insurance

Q4. (a) **E.** Depreciation Expense (b) **B.** Accumulated Depreciation

Set 6 | Year-End Adjustments INDEPENDENT One transaction per view; thirteen accounts, because the six entries use twelve different ones.

Jaworski's Ski Store is completing the accounting process for its first year ended December 31, 2024. The transactions during 2024 have been journalized and posted. Record the adjusting entry for each item at December 31, 2024.

- **a.** The unadjusted balance in Supplies was \$850 at December 31, 2024. The unadjusted balance in Supplies Expense was \$0 at December 31, 2024. A year-end count showed \$100 of supplies on hand.
- **b.** Wages earned by employees during December 2024, unpaid and unrecorded at December 31, 2024, amounted to \$3,700. The last paychecks were issued December 28; the next payments will be made on January 6, 2025. The unadjusted balance in Salaries and Wages Expense was \$40,000 at December 31, 2024.
- **c.** A portion of the store's basement is now being rented for \$1,100 per month to K. Frey. On November 1, 2024, the store collected six months' rent in advance from Frey in the amount of \$6,600. It was credited in full to Deferred Revenue when collected. The unadjusted balance in Rent Revenue was \$0 at December 31, 2024.
- **d.** The store purchased delivery equipment at the beginning of the year. The estimated depreciation for 2024 is \$2,000, although none has been recorded yet.
- **e.** On December 31, 2024, the unadjusted balance in Prepaid Insurance was \$3,000. This was the amount paid in the middle of the year for a two-year insurance policy with coverage beginning on July 1, 2024. The unadjusted balance in Insurance Expense was \$600, which was the cost of insurance from January 1 to June 30, 2024.
- **f.** The store did some ski repair work for Frey. At December 31, 2024, Frey had not paid for work completed amounting to \$750. This amount has not yet been recorded as Service Revenue. Collection is expected during January 2025.

Q1. Determine each amount at December 31, 2024.

	A	B	C	D	E
1. Supplies used during 2024	\$0	\$100	\$750	\$850	\$950
2. Rent revenue earned in 2024	\$1,100	\$2,200	\$3,300	\$4,400	\$6,600
3. Insurance expense to record at December 31	\$600	\$750	\$1,350	\$1,500	\$3,000

Q2. a. The unadjusted balance in Supplies was \$850 and the unadjusted balance in Supplies Expense was \$0. A year-end count showed \$100 of supplies on hand. Record the adjusting entry at December 31, 2024. Choose the correct account for each blank.

General Journal	Debit	Credit
(a) _____	750	
(b) _____		750

Q3. b. Wages of \$3,700 earned by employees during December 2024 were unpaid and unrecorded at December 31; the next payments will be made on January 6, 2025. Record the adjusting entry at December 31, 2024. Choose the correct account for each blank.

General Journal	Debit	Credit
(a) _____	3,700	
(b) _____		3,700

Q4. c. On November 1, 2024, the store collected six months' rent in advance from K. Frey, \$6,600 at \$1,100 per month, credited in full to Deferred Revenue. Record the adjusting entry at December 31, 2024. Choose the correct account for each blank.

General Journal	Debit	Credit
(a) _____	2,200	
(b) _____		2,200

Q5. d. The store purchased delivery equipment at the beginning of the year. The estimated depreciation for 2024 is \$2,000, although none has been recorded yet. Record the adjusting entry at December 31, 2024. Choose the correct account for each blank.

General Journal	Debit	Credit
(a) _____	2,000	
(b) _____		2,000

Q6. e. At December 31, 2024, the unadjusted balance in Prepaid Insurance was \$3,000, paid for a two-year policy with coverage beginning on July 1, 2024. Record the adjusting entry at December 31, 2024. Choose the correct account for each blank.

General Journal	Debit	Credit
(a) _____	750	
(b) _____		750

Q7. f. At December 31, 2024, Frey had not paid for ski repair work completed amounting to \$750, and the amount has not yet been recorded as Service Revenue. Collection is expected during January 2025. Record the adjusting entry at December 31, 2024. Choose the correct account for each blank.

General Journal	Debit	Credit
(a) _____	750	
(b) _____		750

Accounts

Choose the correct account for each blank. An account may be used more than once, or not at all.

- A. Accounts Receivable
- B. Accumulated Depreciation
- C. Deferred Revenue
- D. Depreciation Expense
- E. Equipment
- F. Insurance Expense
- G. Prepaid Insurance
- H. Rent Revenue
- I. Salaries and Wages Expense
- J. Salaries and Wages Payable
- K. Service Revenue
- L. Supplies
- M. Supplies Expense

Answers, Set 6:

Q1. 1 C 2 B 3 B

Q2. (a) M. Supplies Expense (b) L. Supplies

Q3. (a) I. Salaries and Wages Expense (b) J. Salaries and Wages Payable

Q4. (a) C. Deferred Revenue (b) H. Rent Revenue

Q5. (a) D. Depreciation Expense (b) B. Accumulated Depreciation

Q6. (a) F. Insurance Expense (b) G. Prepaid Insurance

Q7. (a) A. Accounts Receivable (b) K. Service Revenue

Set 7 | Year-End Statements LINKED Each statement builds on the total before it.

Sky Blue Corporation has the following adjusted trial balance at December 31 (all amounts in dollars):

Account	Debit	Credit
Cash	\$1,230	
Accounts Receivable	2,000	
Prepaid Insurance	2,300	
Notes Receivable (due beyond one year)	3,000	
Equipment	12,000	
Accumulated Depreciation		\$2,600
Accounts Payable		5,420
Salaries and Wages Payable		1,000
Income Taxes Payable		2,900
Deferred Revenue		600
Common Stock		2,400
Retained Earnings, January 1		1,000
Dividends	300	
Sales Revenue		42,030
Rent Revenue		300
Salaries and Wages Expense	21,600	
Depreciation Expense	1,300	
Utilities Expense	4,220	
Insurance Expense	1,400	
Rent Expense	6,000	
Income Tax Expense	2,900	
Total	\$58,250	\$58,250

Q1. Prepare the **income statement** of Sky Blue Corporation for the year ended December 31 (in dollars). Determine each amount.

	A	B	C	D	E
1. Total Revenues	\$41,730	\$42,030	\$42,330	\$42,630	\$42,930
2. Total Expenses	\$34,520	\$36,020	\$36,120	\$37,420	\$38,720
3. Net Income	\$4,610	\$4,910	\$5,210	\$5,610	\$7,810

Q2. Prepare the **statement of retained earnings** of Sky Blue Corporation for the year ended December 31 (in dollars). What is the balance of Retained Earnings at December 31?

- A. \$1,000
- B. \$4,610
- C. \$4,910
- D. \$5,610
- E. \$5,910

Q3. Prepare the **classified balance sheet** of Sky Blue Corporation at December 31 (in dollars). Determine each amount.

	A	B	C	D	E
1. Total Current Assets	\$3,230	\$5,530	\$8,530	\$9,400	\$14,930
2. Total Assets	\$14,930	\$15,330	\$15,630	\$17,930	\$20,530
3. Total Current Liabilities	\$6,420	\$9,320	\$9,920	\$10,520	\$12,920
4. Total Stockholders' Equity	\$2,400	\$3,400	\$5,610	\$7,310	\$8,010

Q4. Are the corporation's assets financed primarily by **debt or equity**?

A. Debt

B. Equity

Q5. On December 31, Sky Blue records the first closing entry, which closes the income statement accounts to Retained Earnings. In that entry, is each account **debited or credited**?

Account	Answer
1. Sales Revenue	_____
2. Rent Revenue	_____
3. Salaries and Wages Expense	_____
4. Income Tax Expense	_____
5. Retained Earnings	_____

Choices: A. Debited B. Credited

Q6. On December 31, Sky Blue records the second closing entry. Choose the correct account for each blank.

General Journal	Debit	Credit
(a) _____	300	
(b) _____		300

Accounts

Choose the correct account for each blank. An account may be used more than once, or not at all.

- A. Accounts Payable
- B. Cash
- C. Common Stock
- D. Dividends
- E. Income Tax Expense
- F. Rent Revenue
- G. Retained Earnings
- H. Salaries and Wages Expense
- I. Sales Revenue
- J. Utilities Expense

Answers, Set 7:

Q1. 1 C 2 D 3 B

Q2. D

Q3. 1 B 2 D 3 C 4 E

Q4. A

Q5. 1 A 2 A 3 B 4 B 5 B

Q6. (a) G. Retained Earnings (b) D. Dividends