Chapter 3

Multiple Choice Questions (10 points each) Select the ONE, BEST Answer

Adjusting entries:

- Affect only income statement accounts.
- Affect only balance sheet accounts.
- Affect both income statement and balance sheet accounts.
- Affect only cash flow statement accounts.
- Affect only equity accounts.

An adjusting entry could be made for each of the following except:

- Prepaid expenses.
- Depreciation.
- Owner withdrawals.
- Unearned revenues.
- Accrued revenues.

Accrued revenues:

1. At the end of one accounting period often result in cash receipts from customers in the next period.
2. At the end of one accounting period often result in cash payments in the next period.
3. Are also called unearned revenues.
4. Are listed on the balance sheet as liabilities.
5. Are recorded at the end of an accounting period because cash has already been received for revenues earned.

On May 1, 2007 Giltus Advertising Company received $1, 500 from Julie Bee for advertising services to be completed April 30, 2008. The Cash receipt was recorded as unearned fees and at December 31, 2007, $1, 000 of the fees had been earned. The adjusting entry on December 31 Year 1 should include:

- A debit to Unearned Fees for $500.
- A credit to Unearned Fees for $500.
- A credit to Earned Fees for $1, 000.
- A debit to Earned Fees for $1, 000.
- A debit to Earned Fees for $500.

Problem (60 points)

A company has 20 employees who each earn $500 per week for a 5-day week that begins on Monday. December 31 of Year 1 is a Monday, and all 20 employees worked that day. Prepare the required adjusting journal entry to record accrued salaries on December 31, 2004. Prepare the journal entry to record the payment of salaries on January 4, 2005. Dec. 31st, 2004DrCr Salaries expense$2, 000 Salaries payable$2, 000 Jan. 4, 2005 DrCr Salary expense$8, 000 Salary payable$2, 000 Cash Paid$10, 000