

Chapter 3– Financial Accounting, 2nd edition by Dyckman & Pfeiffer

Solutions to Practice Quiz

Topic: Accounting Cycle

LO: 1

1. In the accounting cycle, preparing financial statements comes before which of the following steps?

- a. analyzing transactions
- b. recording deferrals
- c. preparing an unadjusted trial balance
- d. prepare a post-closing trial balance

Answer: D

Rationale: After financial statements are prepared, temporary accounts are closed and a post-closing trial balance is prepared to make sure that ledger accounts are in balance and ready to start the next accounting period.

Topic: Review of Accounting Procedures

LO: 2

2. The process of entering transactions in a general journal is called:

- a. posting
- b. journalizing
- c. charting accounts
- d. transaction analysis

Answer: B

Rationale: Journalizing means to record a transaction in a general journal.

Topic: Preparing Financial Statements from Adjusted Accounts

LO: 3

3. Which of the following is the best explanation of the purpose of adjusting entries?

- a. To correct errors made during the accounting period.
- b. To update the retained earnings for the changes that had been recorded in revenue and expense accounts throughout the period.
- c. To prepare revenue and expense accounts for the next accounting period.
- d. To allow matching for the period by recording certain revenue and expenses that are not properly measured during routine daily transactions.

Answer: D

Rationale: Accrual and deferral adjusting entries allow expenses of the period to be matched against revenues, for those transactions that are not typically recorded in daily routine transactions.

Topic: The Adjusting Process

LO: 3

4. Mayfair Company has four employees who earn \$750 per week for a five-day work week ending on Friday. If the last day of 2010 falls on Wednesday, the company should make which of the following adjusting entries to accrue the wages for 2010?

a.

Wage Expense (+E, -SE)	1,800	
Wages Payable (+L)		1,800

b.

Wage Expense (+E, -SE)	3,000	
Cash (-A)		3,000

c.

Wages Payable (-L)	450	
Wage Expense (+E, -SE)		450

d.

Wages Payable (-L)	1,800	
Wage Expense (+E, -SE)		1,800

Answer: A

Rationale:

$$\$ 750 \times 3/5 \times 4 = \$1,800$$

Wage Expense (+E, -SE)	1,800	
Wages Payable (+L)		1,800

Topic: Market-to-Book Ratio

LO: 6

5. How many shares of common stock outstanding does Murphy Company have if their stockholders' equity is \$4,250,000, their stock price is \$12.50 per share, and their market-to-book ratio is 2.5?

a. 850,000

b. 1,700,000

c. 340,000

d. 136,000

Answer: A

Rationale:

Market value / Book value = Market-to-book ratio

$$(\$12.50 \times \text{Shares}) / \$4,250,000 = 2.5$$

$$\text{Shares} = 850,000$$

Topic: Market-to-Book Ratio

LO: 6

6. What is the price of a share of Upton Company's stock if their stockholder's equity is \$3,750,000, common shares outstanding is 500,000 and their market-to-book ratio is 1.9?

- a. \$7.50 per share
- b. \$3.95 per share
- c. \$0.25 per share
- d. \$14.25 per share

Answer: D

Rationale:

Market value / Book value = Market-to-book ratio

(Stock Price x 500,000) / \$3,750,000 = 1.9

Stock Price = \$14.25 per share

Below is the adjusted trial balance for Yang Service Company. Use this information to answer questions 7-10.

Yang Service Company		
Adjusted Trial Balance		
December 31, 2010		
Cash	\$ 17,750	
Accounts receivable	16,375	
Office equipment	7,500	
Accumulated Depreciation		\$ 3,000
Accounts payable		6,375
Common Stock		11,250
Retained earnings (1/1/10)		10,000
Service Revenue		52,750
Salaries expense	18,000	
Advertising expense	11,625	
Depreciation expense	12,125	
	<u>\$83,375</u>	<u>\$83,375</u>

Topic: The Closing Process

LO: 5

7. Based on Yang's adjusted trial balance, the entry to close Advertising Expense will:

- a. include a credit to Retained Earnings
- b. include a debit to Common Stock
- c. include a credit to Cash
- d. include a credit to Advertising Expense

Answer: D

Rationale: When expenses are closed to Retained Earnings, expenses, such as Advertising Expense will be credited and Retained Earnings will be debited.

Topic: The Closing Process

LO: 5

8. Based on Yang's adjusted trial balance, the entry to close Service Revenue will:
- include a credit to Retained Earnings
 - include a debit to Common Stock
 - include a debit to Cash
 - include a credit to Service Revenue

Answer: A

Rationale: When revenues are closed to Retained Earnings, revenues, such as Service Revenue will be debited and Retained Earnings will be credited.

Topic: Financial Statements from Adjusted Accounts

LO: 4

9. Based on Yang's adjusted trial balance, Net Income for the period equals:
- \$32,250
 - \$52,750
 - \$11,000
 - \$0

Answer: C

Rationale: $\$52,750 - 18,000 - 11,625 - 12,125 = \$11,000$

Topic: Financial Statements and the Closing Process

LO: 4,5

10. Based on Yang's information, the balance of Retained Earnings after closing on December 31, 2010 will be:
- \$21,000
 - \$10,000
 - \$62,750
 - \$42,250

Answer: A

Rationale: $\$10,000 + 11,000 = \$21,000$