Which of the following statements are important when choosing the appropriate time period for financial reporting purposes?

A) The value of information is often linked to its timeliness.

B) Useful information must reach decision makers frequently and promptly.

C) Timely information requires that reports be prepared at regular intervals.

D) All of the above.

E) None of the above.

Feedback: All of the above are important considerations when choosing the appropriate time period for a financial report. (Learning Objective C1)

Which of the following statements is correct concerning the accrual basis of accounting?

A) The accrual basis does not consider the revenue recognition principle.

B) The accrual basis must follow the revenue recognition principle but not the expense recognition principle.

C) The accrual basis uses the adjusting process to recognize revenues when earned and to match expenses with revenues.

D) The accrual basis recognizes revenues when earned and records expenses when cash is paid.

E) The accrual basis is the same as the cash basis of accounting.

Feedback: This statement is incorrect. The accrual basis does consider the revenue recognition principle. The accrual basis relies on the revenue recognition principle and the expense recognition principle in the adjusting process. The accrual basis of accounting uses the adjusting process to recognize (that is, record) revenues when earned and expenses when incurred (matched with revenues). (Learning Objective C2)

Which of the following statements are correct with respect to the cash basis of accounting?

A) The cash basis of accounting recognizes revenues when the cash is received.

B) The cash basis of accounting recognizes expenses when the cash is paid.

C) The cash basis of accounting is acceptable for GAAP purposes.

D) All of the above.

E) None of the above.

Feedback: This statement is correct; however, it is not the best answer. The cash basis recognizes revenues when cash is received and records expenses when cash is paid. (Learning Objective C2)

The steps in the accounting cycle includes the following: adjusting the accounts; preparing a post-closing trial balance; preparing an unadjusted trial balance; analyzing the transactions; journalizing; posting; closing temporary accounts; and preparing the financial statements. What is the proper order of the first five steps?

A) Analyzing transactions; journalizing; posting; preparing a post-closing trial balance; and adjusting the accounts.

B) Analyzing transactions; journalizing; posting; preparing an unadjusted trial balance; and adjusting the accounts.

C) Adjusting the accounts; analyzing the transactions; journalizing; posting; and preparing the financial statements.

D) Analyzing transactions; journalizing; posting; preparing a post-closing trial balance; and preparing the financial statements.

E) None of the above.

Feedback: The first five steps in the accounting cycle are as follows: analyzing transactions; journalizing; posting; preparing an unadjusted trial balance; and adjusting the accounts. (Learning Objective C3)

Which of the following accounts represent a current asset on a classified balance sheet?

A) Short-term investments

B) Merchandise inventory

C) Prepaid expenses

D) Cash

E) All of the above

Feedback: All of the accounts listed are current assets. Current assets are cash and other resources that are expected to be sold, collected, or used with one year or the company's operating cycle, whichever is longer. (Learning Objective C4)

Which is true about an adjusting entry?

A) Only a permanent account is adjusted.

B) Only a temporary account is adjusted.

C) Both a permanent account and a temporary account are affected.

D) It is required to satisfy the revenue recognition principle only.

E) None of the above.

Feedback: An adjusting entry is recorded to bring an asset or liability account balance to its proper amount. The entry also updates a related expense or revenue account. As such, each adjusting entry affects a temporary account (that is, a revenue or expense account) and a permanent account (that is, an asset or liability account). (Note that a review of the adjusting entries illustrated in this chapter will support this statement.) (Learning Objectives A1, P1, and P4)

What is the formula for the profit margin ratio?

A) Net income divided by total assets

B) Net income divided by net sales

C) Net sales divided by net income

D) Net income divided by total equity

E) Net sales divided by total equity

Feedback: The profit margin is calculated by dividing net income by net sales. (Learning Objective A2)

Current assets total $30,000, plant and equipment assets, net, total $40,000, current liabilities total $10,000, and long-term liabilities total $20,000. What is the current ratio?

A) 1.0:1

B) 1.5:1

C) 2.5:1

D) 3.0:1

E) None of the above

Feedback: Current assets of $30,000 divided by current liabilities of $10,000 equals a current ratio of 3.0:1 (or 3 to 1). (Learning Objective A3)

What happens or is accomplished when the adjusting entry for depreciation is recorded?

A) The cost of the asset is allocated over its useful life.

B) Expenses decrease.

C) The carrying (or book) value of the related asset increases in the balance sheet.

D) All of the above.

E) None of the above.

Feedback: The adjusting entry for depreciation allocates the cost of the asset over its useful life. (Learning Objective P1)

Which if the following is correct regarding the Accumulated Depreciation account?

A) It is reported on the income statement.

B) It has a normal debit balance.

C) It is a contra asset account, and has a credit balance.

D) It is a temporary account that must be closed out at year-end.

E) All of the above.

Feedback: Because it is a contra asset account, the Accumulated Depreciation account is reported in the balance sheet (rather than in the income statement). (Learning Objective P1)

On November 1, a magazine publisher receives $12 million from its customers for annual subscriptions to a monthly magazine. The November issue is immediately sent to those customers to start their subscriptions. Assuming that an adjusting entry was not journalized on November 30, what adjusting entry should be recorded on December 31?

A) Debit the Unearned Subscriptions account and credit the Subscription Revenue account for $2 million.

B) Debit the Unearned Subscriptions account and credit the Subscription Revenue account for $1 million.

C) Debit the Prepaid Subscriptions account and credit the Unearned Subscriptions account for $2 million.

D) Debit the Prepaid Subscriptions account and credit the Unearned Subscriptions account for $1 million.

E) None of the above.

Feedback: Note that every adjusting entry must include a debit to an expense account or a credit to a revenue account. In this situation, revenue has been earned by sending two (that is, the November and December issues) of the twelve magazines covered by the subscription to the customers. In addition, the related obligation to these customers has been reduced; only ten additional issues are owed. The adjusting entry, dated December 31, for this situation would include a debit to the Unearned Subscriptions Revenue account and a credit to the Subscription Revenue account for $2 million (or $12 million x 2/12). (Learning Objective P1)

The ABC Company's employees earn $15,000 for each five-day workweek ending every Friday. If the fiscal year ends on a Tuesday, what adjusting entry should be recorded?

A) Debit Salary Expense $15,000 and Credit Salaries Payable $15,000.

B) Debit Salary Expense $6,000 and Credit Salaries Payable $6,000.

C) Debit Salary Expense $9,000 and Credit Salaries Payable $9,000.

D) Debit Salaries Payable $10,000 and Credit Salary Expense $10,000.

E) None of the above.

Feedback: Two days of accrued salaries expense must be recognized. The adjusting entry would debit the Salary Expense account and credit the Salaries Payable account for $6,000 (or $15,000 x 2/5). (Learning Objective P1)

Which of the following is not a temporary account?

A) Income Summary

B) Rental Revenue

C) Common Stock

D) Dividends

E) Depreciation Expense-Office Equipment

Feedback: The Income Summary account is a temporary account, which is closed in Step 3 of the closing-entry process. Revenue accounts are temporary accounts, which are closed in Step 1 of the closing-entry process. Common Stock is a permanent (rather than temporary) account; it is not closed. The Dividends account is a temporary account, which is closed in Step 4 of the closing-entry process. Expense accounts are temporary accounts, which are closed in Step 2 of the closing-entry process. (Learning Objective P4)

After the closing procedure is complete, which of the following proves the equality of debits and credits?

A) Income statement

B) Account form balance sheet

C) Post-closing trial balance

D) Work sheet

E) All of the above

Feedback: A post-closing trial balance is a list of permanent accounts and their balances from the ledger after all closing entries have been journalized and posted. It lists the balances for all accounts not closed. These accounts comprise a company's assets, liabilities, and equity, which are identical to those in the balance sheet. The aim of a post-closing trial balance is to verify that (1) total debits equal total credits for permanent accounts, and (2) all temporary accounts have zero balances. (Learning Objective P5)

Which of the following statements concerning U.S. GAAP and IFRS is true?

A) Cash Basis is not consistent with neither U.S. GAAP nor IFRS.

B) IFRS balance sheets normally present noncurrent items first.

C) Both U.S. GAAP and IFRS include similar guidance for adjusting accounts.

D) All of the above.

E) None of the above.

Feedback: This is a correct answer, but it is not the best answer. Cash basis accounting is not consistent with generally accepted accounting principles (neither U.S. GAAP nor IFRS). (Learning Objectives C2 and Global View)