I. Please answer the following statements as either True or False.

_ 1. Ethics are not important to the primary functions of accounting.

_ 2. Generally accepted accounting principles are the basic assumptions, concepts, and guidelines for preparing financial information.

_ 3. The monetary unit principle means that all international transactions must be expressed in dollars.

_ 4. The balance sheet is based on the accounting equation.

_ 5. Withdrawals by the owner are a form of business expense.

_ 6. Double entry accounting requires that each transaction affects, and be recorded in, at least two accounts.

_ 7. If a company purchases land paying cash, the journal entry to record this transaction will include a debit to Cash.

_ 8. The trial balance is a list of all accounts and their balances from the ledger.

_ 9. Under the cash basis of accounting, no adjustments are made for prepaid, unearned, and accrued items.

_ 10. An adjusting entry affects one or more income statement accounts and never cash.

_ 11. A contra account is an account linked with another account; it is added to that account to show the proper amount for the item recorded in the associated account.

_ 12. Interim statements report a company’s business activities for a one-year period.

II. Complete the following statements with the proper word(s).

1. The matching principle requires that
2. Describe the purpose of accounting in society.

3. During the year, the assets of a business decreased $35,000 and the liabilities increased $20,000; consequently, equity in the business must have (increased/decreased) by $__________.


5. List three examples of source documents (business papers).

6. A compound journal entry can be defined as

7. When is the Adjusted Trial Balance prepared?

8. The natural business year is described as

9. The accrual basis of accounting requires the use of two GAAP principles. Which ones are they?

10. Accumulated Depreciation, Building is a contra asset account. Explain.
III. Select the best answer to the following statements.

1. Internal users of accounting information include:
   a. shareholders
   b. managers
   c. lenders
   d. suppliers
   e. customers

2. Revenue is properly recognized:
   a. when the customer's order is received
   b. only if the transaction creates an accounts receivable
   c. at the end of the accounting period
   d. upon completion of the sale or when services have been performed and the business obtains the right to collect the sales price
   e. when cash from a sale is received

3. An exchange of value between two entities is called:
   a. the accounting equation
   b. recordkeeping or bookkeeping
   c. a business transaction
   d. an asset
   e. net income

4. Unearned revenues are:
   a. revenues that have been earned and received in cash
   b. revenues that have been earned but not yet collected in cash
   c. liabilities created when a customer pays in advance for products or services before the revenue is earned
   d. recorded as an asset in the accounting records
   e. increases to owners' capital

5. The process of transferring general journal information to the ledger is:
   a. double-entry accounting
   b. posting
   c. balancing an account
   d. journalizing
   e. not required unless debits do not equal credits

6. While in the process of posting from the journal to the ledger a company failed to post a $50 debit to the Office Supplies account. The effect of this error will be that:
   a. the Office Supplies account balance will be overstated
   b. the trial balance will not balance
   c. the error will overstate the debits listed in the journal;
   d. the total debits in the trial balance will be larger than the total credits
Page 4

e. all of the above effects will be caused by the error

7. Which of the following does not require an adjusting entry at year-end?
a. accrued interest on notes payable
b. supplies used during the period
c. cash invested by the owner
d. accrued wages
e. expired portion of prepaid insurance

8. A broad principle that requires identifying the activities of a business with specific time periods such as months, quarters, or years is the:
a. operating cycle of a business
b. going-concern principle
c. time period principle
d. matching principle
e. accrual basis of accounting

IV. Essay
1. Identify the differences between accrual accounting and cash basis accounting.

2. Explain debits and credits and their role in the accounting system.
IV. Prepare journal entries on December 31, 2008, to record the following unrelated year-end adjustments for Big Sky Movers, Inc.

a. Estimated depreciation on Equipment for the year was $17,800.

b. The Prepaid Insurance account has a $4,350 debit balance before adjustment. An examination of insurance policies shows $2,900 of insurance expired.

c. The company has five employees who each earn $185 per day for a five-day work week that ends on Friday. The employees were paid on Friday, December 26, and have worked on Monday, Tuesday and Wednesday, December 29, 30 and 31.

d. On November 1 a client paid for four months of moving services in advance priced at $1,200 per month. The $4,800 was credited to the Unearned Service Revenue account.

e. Office Supplies had a beginning balance of $700 and $3,600 in office supplies were purchased in 2008. An ending inventory count resulted in $1,050 remaining in office supplies.

<table>
<thead>
<tr>
<th>Date</th>
<th>Account Titles and Explanation</th>
<th>P.R.</th>
<th>Debit</th>
<th>Credit</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
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</tbody>
</table>
VI. The trial balance for Odelia O'Connor's accounting firm is shown below. Prepare the proper Income Statement, Statement of Owner's Equity, and Balance Sheet for Odelia's business for the year ended December 31, 2008.

Odelia O'Connor CPA
Adjusted Trial Balance
December 31, 2008

<table>
<thead>
<tr>
<th></th>
<th>Debit</th>
<th>Credit</th>
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<tbody>
<tr>
<td>Cash</td>
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<tr>
<td>Accounts Receivable</td>
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<tr>
<td>Office Supplies</td>
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<tr>
<td>Prepaid Insurance</td>
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<tr>
<td>Office Equipment</td>
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<tr>
<td>Accumulated Depreciation, Equipment</td>
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<td>$12,500</td>
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<tr>
<td>Accounts Payable</td>
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<td>1,500</td>
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<tr>
<td>Notes Payable</td>
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<tr>
<td>Unearned Accounting Fees</td>
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<td>3,095</td>
</tr>
<tr>
<td>Odelia O'Connor, Capital</td>
<td></td>
<td>16,835</td>
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<tr>
<td>Odelia O'Connor, Withdrawals</td>
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<tr>
<td>Accounting Fees Earned</td>
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<td>143,950</td>
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<tr>
<td>Salaries Expense</td>
<td>52,000</td>
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<tr>
<td>Rent Expense</td>
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<td>Insurance Expense</td>
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<td>Supplies Expense</td>
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<td>Depreciation Expense</td>
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<td>Interest Expense</td>
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<tr>
<td>Totals</td>
<td>$ 202,880</td>
<td>$202,880</td>
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</table>

**Income Statement**
Statement of Owner’s Equity

Balance Sheet