Multiple Choice

Use your scantron on #1-25 to indicate the letter of the choice that best completes the statement or answers the question.

THERE ARE TWO TEST VERSIONS, PLEASE BE SURE TO WRITE YOUR VERSION COLOR OR LETTER ON YOUR SCANTRON.

1. Which one of the following statements is true?
   a. External events (transactions) involve interactions between an entity and a party outside the entity.
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2. Which of the following is an internal event (transaction)?
   a. Life guard salaries are paid by a swim club.
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   c. Eggs used to make omelets in a restaurant are purchased.
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3. The purchase of office equipment on credit has what effect on the accounting equation?
   a. Assets decrease and owners' equity decreases
   b. Liabilities increase and owners' equity decreases
   c. Assets increase and liabilities increase
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4. Which of the following statements best describes the effects of recognizing revenue earned by a business entity?
   a. Assets increase only when cash sales are made.
   b. Owners' equity increases only when credit sales are made.
   c. Assets and owners' equity increase when either cash or credit sales are made.
   d. Assets increase, but owners' equity decreases, when either cash or credit sales are made.

5. Which of the following statements regarding the activities of St. Jean Corp. is true?
   a. Revenues decrease St. Jean's owners' equity.
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6. The Kelly Company purchased a building for $75,000 in cash. What is the effect on current assets?
   a. Increase in current assets
   b. Decrease in current assets
   c. No effect on current assets
   d. Unable to determine

7. An abbreviated version of an account which is useful for analyzing the effects of business transactions is the
   a. T account.
   b. trial balance.
   c. chart of accounts.
   d. double-entry system.
8. Debit entries are used to
   a. increase asset accounts.
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9. Which pair of accounts has the same set of rules for debit and credit entries?
   a. Common stock (capital stock) and accounts payable
   b. Salaries expense and retained earnings
   c. Cash and notes payable
   d. Sales revenues and accounts receivable

10. Which of the following will **not** cause a trial balance to be out of balance?
    a. The balance for an account is incorrectly computed.
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11. If the landlord has rent ________, then the tenant has rent ________.
    a. Revenue; Revenue
    b. Revenue; Expense
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    a. market value.
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    a. customer places the order.
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14. On August 31, 2004, U.S. Food Corporation signed a 4-year contract to provide services for DayCare, Inc. at $20,000 per year. DayCare, Inc. will pay for each year of services on the first day of each service year, starting with September 1, 2004. Using the accrual basis of accounting, U.S. Food Corporation should recognize revenue
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1. Cash is received during 2005. Revenue is earned in 2004.
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   a. 1 and 2 only
   b. 1 and 3 only
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17. Diamond Company takes out a two-year, 10%, $150,000 note on May 1, 2004, with interest and principal to be paid at maturity. How much interest will be reported on the income statement for the year ended December 31, 2004?
   a. $10,000
   b. $15,000
   c. $5,000
   d. $30,000

Matching

Using the following choices, match the term to the question below. As you can see, there are 8 questions and 4 terms, so re-using a term is appropriate.

a. Prepaid expenses  
   b. Unearned revenues
   c. Accrued Revenues
   d. Accrued expenses

18. Insurance premium paid in advance.
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20. Fees earned but for which no bill has been sent nor cash collected
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22. Salaries owed to employees but not to be paid until after the balance sheet date.
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   (A) Should RAFS record revenue from this transaction? If so, show the journal entry.

   (B) What should RAFS record as a journal entry when they get off their butt and send out a bill?

   (C) What should RAFS record as a journal entry when the cash is collected?

   (D) In the above facts, when does RAFS “recognize” the revenue and when do they “realize” it?
Problem

28. UCSB3A, Inc. has the following trial balance at the beginning of 2005:

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<thead>
<tr>
<th>Account Title</th>
<th>DR/ &lt;CR&gt;</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash</td>
<td>500,000</td>
</tr>
<tr>
<td>Accounts receivable</td>
<td>50,000</td>
</tr>
<tr>
<td>Inventory</td>
<td>200,000</td>
</tr>
<tr>
<td>Prepaid expenses</td>
<td>-</td>
</tr>
<tr>
<td>Accounts payable</td>
<td>(40,000)</td>
</tr>
<tr>
<td>Accrued expenses</td>
<td>-</td>
</tr>
<tr>
<td>Unearned revenue</td>
<td>-</td>
</tr>
<tr>
<td>Notes payable</td>
<td>(500,000)</td>
</tr>
<tr>
<td>Retained earnings</td>
<td>(110,000)</td>
</tr>
<tr>
<td>Common stock</td>
<td>(100,000)</td>
</tr>
<tr>
<td>Net debit/ &lt;Credit&gt;</td>
<td>-</td>
</tr>
</tbody>
</table>

During the year ended December 31, 2005, the following activity occurred:
1) Purchased, on credit (no cash purchases) $900,000 of inventory.
2) Sold goods for $1,000,000 all of which were sold to customers on credit (no cash sales). The cost of the inventory sold was $800,000.
3) Collected $975,000 from customers on outstanding accounts receivable.
4) Paid $750,000 of open accounts payable.
5) Paid $24,000 cash to their landlord for all rent due for the period from May 1, 2005 through April 30, 2006.
6) Received $25,000 cash from customers for services to be provided during 2006.
7) Sold common stock for $75,000 cash.

Record the journal entry the company should record when each transaction above took place. Ignore any "adjusting entries" for now, they will come in the next part in the space provided below: *(To make it easier on you and avoid any confusion on what account titles to use- please use only account titles listed in the chart of accounts at the end of this exam).* Descriptions under the journal entry are NOT required.

<table>
<thead>
<tr>
<th>Account Title</th>
<th>DEBIT</th>
<th>CREDIT</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
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<tr>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
OKAY- PART TWO: Some of the journal entries recorded when they took place per above require adjustment at the end of the year (December 31, 2005). Also, the debt carries an interest rate of 12% per year and no payments of principle or interest has been made. Please list below any of these “adjusting entries” (NOTE: descriptions under the journal entries are NOT required for this exercise):

FINALLY: Use whatever tool you like to track all of this activity (i.e T-accounts) present the ending trial balance in the following space (HELP- Don’t forget that retained earnings has been impacted by each journal entry which effects the income statement):

<table>
<thead>
<tr>
<th>Account Title</th>
<th>DR./&lt;CR.&gt;</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash</td>
<td></td>
</tr>
<tr>
<td>Accounts receivable</td>
<td></td>
</tr>
<tr>
<td>Inventory</td>
<td></td>
</tr>
<tr>
<td>Prepaid expenses</td>
<td></td>
</tr>
<tr>
<td>Accounts payable</td>
<td></td>
</tr>
<tr>
<td>Accrued expenses</td>
<td></td>
</tr>
<tr>
<td>Unearned revenue</td>
<td></td>
</tr>
<tr>
<td>Debt</td>
<td></td>
</tr>
<tr>
<td>Retained earnings</td>
<td></td>
</tr>
<tr>
<td>Common stock</td>
<td></td>
</tr>
<tr>
<td>Net debit/ &lt;Credit&gt;</td>
<td></td>
</tr>
</tbody>
</table>
### CHART OF ACCOUNTS FOR ALL JOURNAL ENTRIES

#### ASSETS

<table>
<thead>
<tr>
<th>Asset</th>
<th>Account Type</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash</td>
<td>Prepaid expenses</td>
</tr>
<tr>
<td>Accounts receivable</td>
<td>Fixed assets</td>
</tr>
<tr>
<td>Unbilled receivables</td>
<td>&lt;accumulated depreciation&gt;</td>
</tr>
<tr>
<td>&lt;allowance for doubtful accounts&gt;</td>
<td>Capitalized commissions</td>
</tr>
<tr>
<td>Inventory</td>
<td>&lt;accumulated amortization&gt;</td>
</tr>
</tbody>
</table>

#### LIABILITIES

<table>
<thead>
<tr>
<th>Liability</th>
<th>Account Type</th>
</tr>
</thead>
<tbody>
<tr>
<td>Accounts payable</td>
<td>Notes payable**</td>
</tr>
<tr>
<td>Accrued expenses*</td>
<td>Unearned revenues</td>
</tr>
</tbody>
</table>

* Broad term, use for any expense accrued whether it be interest, tax, whatever…

** ignore current v. long-term for journal entries on this exam

#### EQUITY

<table>
<thead>
<tr>
<th>Equity</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Common stock</td>
<td></td>
</tr>
<tr>
<td>Retained earnings</td>
<td></td>
</tr>
</tbody>
</table>

#### INCOME STATEMENT

<table>
<thead>
<tr>
<th>Income Statement</th>
<th>Account Type</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenue/ Sales</td>
<td>Selling, general and administrative expense</td>
</tr>
<tr>
<td>Cost of Revenue/ Sales</td>
<td>Depreciation expense</td>
</tr>
<tr>
<td>Bad debt expense</td>
<td>Amortization expense</td>
</tr>
<tr>
<td>Salaries expense</td>
<td>Interest expense</td>
</tr>
</tbody>
</table>
MULTIPLE CHOICE

1. ANS: A  DIF: 2  REF: p. 104  OBJ: 1
2. ANS: D  DIF: 2  REF: p. 104  OBJ: 1
3. ANS: C  DIF: 2  REF: p. 106  OBJ: 3
4. ANS: C  DIF: 3  REF: p. 106-108  OBJ: 3
5. ANS: C  DIF: 2  REF: p. 106-108  OBJ: 3
6. ANS: B  DIF: 3  REF: p. 106-112  OBJ: 3
7. ANS: A  DIF: 1  REF: p. 113  OBJ: 4
8. ANS: A  DIF: 1  REF: p. 113-115  OBJ: 5
9. ANS: A  DIF: 2  REF: p. 115  OBJ: 5
10. ANS: C  DIF: 2  REF: p. 121-122  OBJ: 7
11. ANS: B  DIF: 2  REF: p. 105-108  OBJ: 3
12. ANS: B  DIF: 1  REF: p. 150-152  OBJ: 1
13. ANS: B  DIF: 2  REF: p. 156  OBJ: 3
14. ANS: A  DIF: 1  REF: p. 156  OBJ: 3
15. ANS: D  DIF: 2  REF: p. 158-160  OBJ: 4
17. ANS: A  DIF: 2  REF: p. 164-167  OBJ: 5

MATCHING

18. ANS: A
19. ANS: B
20. ANS: C
21. ANS: B
22. ANS: D
23. ANS: A
24. ANS: B
25. ANS: D

SHORT ANSWER

26. ANS:
   (A) Cash  15,000
            Unearned revenue  15,000
   (B) Unearned revenue  15,000
            Revenue  15,000
   (C) Unearned revenue  15,000
            Revenue  15,000
27. ANS:
   (A) Unbilled receivables 10,000
       Revenue 10,000

   (B) Accounts receivable 10,000
       Unbilled receivables 10,000

   (C) Cash 10,000
       Accounts receivable 10,000

   (D) Recognized when the service was provided
       Realized when the cash was received.
PROBLEM

28. ANS:

<table>
<thead>
<tr>
<th>Account Title</th>
<th>DEBIT (in 000's)</th>
<th>CREDIT (in 000's)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1) Inventory</td>
<td>900,000</td>
<td>900,000</td>
</tr>
<tr>
<td></td>
<td>Accounts payable</td>
<td></td>
</tr>
<tr>
<td>2) Accounts receivable</td>
<td>1,000,000</td>
<td>1,000,000</td>
</tr>
<tr>
<td></td>
<td>Revenue/sales</td>
<td>800,000</td>
</tr>
<tr>
<td></td>
<td>Cost of sales</td>
<td>800,000</td>
</tr>
<tr>
<td>3) Cash</td>
<td>975,000</td>
<td>975,000</td>
</tr>
<tr>
<td></td>
<td>Accounts receivable</td>
<td></td>
</tr>
<tr>
<td>4) Accounts payable</td>
<td>750,000</td>
<td>750,000</td>
</tr>
<tr>
<td></td>
<td>Cash</td>
<td>24,000</td>
</tr>
<tr>
<td>5) Prepaid expenses</td>
<td>24,000</td>
<td>24,000</td>
</tr>
<tr>
<td></td>
<td>Cash</td>
<td></td>
</tr>
<tr>
<td>6) Cash</td>
<td>25,000</td>
<td>25,000</td>
</tr>
<tr>
<td></td>
<td>Unearned revenue</td>
<td></td>
</tr>
<tr>
<td>7) Cash</td>
<td>75,000</td>
<td>75,000</td>
</tr>
<tr>
<td></td>
<td>Common Stock</td>
<td></td>
</tr>
</tbody>
</table>

PART II- ADJUSTING ENTRIES:

ADJUST PREPAID RENT FOR 8 MONTHS PASSING:

Rent expense 16,000
Prepaid expenses 16,000

ACCRUE INTEREST EXPENSE:

Interest expense 60,000
Accrued expenses 60,000

ENDING TRIAL BALANCE:

In place of T-Accounts:

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<thead>
<tr>
<th>Account Title</th>
<th>DR/ CR (in 000's)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash</td>
<td>801,000</td>
</tr>
<tr>
<td>Accounts receivable</td>
<td>75,000</td>
</tr>
<tr>
<td>Inventory</td>
<td>300,000</td>
</tr>
<tr>
<td>Prepaid expenses</td>
<td>8,000</td>
</tr>
<tr>
<td>Accounts payable</td>
<td>&lt;190,000&gt;</td>
</tr>
<tr>
<td>Accrued expenses (interest)</td>
<td>&lt;60,000&gt;</td>
</tr>
<tr>
<td>Unearned revenue</td>
<td>&lt;25,000&gt;</td>
</tr>
<tr>
<td>Debt</td>
<td>&lt;500,000&gt;</td>
</tr>
<tr>
<td>Retained earnings</td>
<td>&lt;234,000&gt;</td>
</tr>
<tr>
<td>Common stock</td>
<td>(175,000)</td>
</tr>
</tbody>
</table>
OTHER

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Net debit/ <Credit> 0
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</tr>
</thead>
<tbody>
<tr>
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<td>500,000</td>
</tr>
<tr>
<td>Accounts receivable</td>
<td>50,000</td>
</tr>
<tr>
<td>Inventory</td>
<td>200,000</td>
</tr>
<tr>
<td>Prepaid expenses</td>
<td>-</td>
</tr>
<tr>
<td>Accounts payable</td>
<td>(40,000)</td>
</tr>
<tr>
<td>Accrued expenses</td>
<td>-</td>
</tr>
<tr>
<td>Unearned revenue</td>
<td>-</td>
</tr>
<tr>
<td>Notes payable</td>
<td>(500,000)</td>
</tr>
<tr>
<td>Retained earnings</td>
<td>(110,000)</td>
</tr>
<tr>
<td>Common stock</td>
<td>(100,000)</td>
</tr>
<tr>
<td>Net debit/ &lt;Credit&gt;</td>
<td>-</td>
</tr>
</tbody>
</table>

During the year ended December 31, 2005, the following activity occurred:

1) Purchased, on credit (no cash purchases) $900,000 of inventory.
2) Sold goods for $1,000,000 all of which were sold to customers on credit (no cash sales). The cost of the inventory sold was $800,000.
3) Collected $975,000 from customers on outstanding accounts receivable.
4) Paid $750,000 of open accounts payable.
5) Paid $24,000 cash to their landlord for all rent due for the period from May 1, 2005 through April 30, 2006.
6) Received $25,000 cash from customers for services to be provided during 2006.
7) Sold common stock for $75,000 cash.

Record the journal entry the company should record when each transaction above took place. Ignore any “adjusting entries” for now, they will come in the next part in the space provided below: (To make it easier on you and avoid any confusion on what account titles to use- please use only account titles listed in the chart of accounts at the end of this exam). Descriptions under the journal entry are NOT required.

<table>
<thead>
<tr>
<th>Account Title</th>
<th>DEBIT</th>
<th>CREDIT</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
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<tr>
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</tr>
<tr>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

5
OKAY- PART TWO: Some of the journal entries recorded when they took place per above require adjustment at the end of the year (December 31, 2005). Also, the debt carries an interest rate of 12% per year and no payments of principle or interest has been made. Please list below any of these “adjusting entries” (NOTE: descriptions under the journal entries are NOT required for this exercise):

FINALLY: Use whatever tool you like to track all of this activity (i.e T-accounts) present the ending trial balance in the following space (HELP- Don’t forget that retained earnings has been impacted by each journal entry which effects the income statement):

<table>
<thead>
<tr>
<th>Account Title</th>
<th>DR./&lt;CR.&gt;</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash</td>
<td></td>
</tr>
<tr>
<td>Accounts receivable</td>
<td></td>
</tr>
<tr>
<td>Inventory</td>
<td></td>
</tr>
<tr>
<td>Prepaid expenses</td>
<td></td>
</tr>
<tr>
<td>Accounts payable</td>
<td></td>
</tr>
<tr>
<td>Accrued expenses</td>
<td></td>
</tr>
<tr>
<td>Unearned revenue</td>
<td></td>
</tr>
<tr>
<td>Debt</td>
<td></td>
</tr>
<tr>
<td>Retained earnings</td>
<td></td>
</tr>
<tr>
<td>Common stock</td>
<td></td>
</tr>
<tr>
<td>Net debit/ &lt;Credit&gt;</td>
<td></td>
</tr>
</tbody>
</table>
## CHART OF ACCOUNTS FOR ALL JOURNAL ENTRIES

### ASSETS

<table>
<thead>
<tr>
<th>Account</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash</td>
<td>Prepaid expenses</td>
</tr>
<tr>
<td>Accounts receivable</td>
<td>Fixed assets</td>
</tr>
<tr>
<td>Unbilled receivables</td>
<td>&lt;accumulated depreciation&gt;</td>
</tr>
<tr>
<td>&lt;allowance for doubtful accounts&gt;</td>
<td>Capitalized commissions</td>
</tr>
<tr>
<td>Inventory</td>
<td>&lt;accumulated amortization&gt;</td>
</tr>
</tbody>
</table>

### LIABILITIES

<table>
<thead>
<tr>
<th>Account</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Accounts payable</td>
<td>Notes payable**</td>
</tr>
<tr>
<td>Accrued expenses*</td>
<td>Unearned revenues</td>
</tr>
</tbody>
</table>

* Broad term, use for any expense accrued whether it be interest, tax, whatever…

** Ignore current v. long-term for journal entries on this exam

### EQUITY

<table>
<thead>
<tr>
<th>Account</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Common stock</td>
<td></td>
</tr>
<tr>
<td>Retained earnings</td>
<td></td>
</tr>
</tbody>
</table>

### INCOME STATEMENT

<table>
<thead>
<tr>
<th>Account</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenue/ Sales</td>
<td>Selling, general and administrative expense</td>
</tr>
<tr>
<td>Cost of Revenue/ Sales</td>
<td>Depreciation expense</td>
</tr>
<tr>
<td>Bad debt expense</td>
<td>Amortization expense</td>
</tr>
<tr>
<td>Salaries expense</td>
<td>Interest expense</td>
</tr>
</tbody>
</table>
MULTIPLE CHOICE

1. ANS: A  DIF: 2  REF: p. 105-108  OBJ: 3
2. ANS: A  DIF: 3  REF: p. 106-108  OBJ: 3
3. ANS: D  DIF: 1  REF: p. 150-152  OBJ: 1
4. ANS: C  DIF: 1  REF: p. 113  OBJ: 4
5. ANS: D  DIF: 2  REF: p. 121-122  OBJ: 7
7. ANS: C  DIF: 3  REF: p. 106-112  OBJ: 3
8. ANS: D  DIF: 2  REF: p. 156  OBJ: 3
9. ANS: D  DIF: 2  REF: p. 106  OBJ: 3
10. ANS: B  DIF: 2  REF: p. 104  OBJ: 1
12. ANS: C  DIF: 2  REF: p. 115  OBJ: 5
13. ANS: C  DIF: 2  REF: p. 158-160  OBJ: 4
14. ANS: D  DIF: 1  REF: p. 156  OBJ: 3
15. ANS: D  DIF: 2  REF: p. 106-108  OBJ: 3
16. ANS: A  DIF: 1  REF: p. 113-115  OBJ: 5
17. ANS: D  DIF: 2  REF: p. 104  OBJ: 1

MATCHING

18. ANS: D
19. ANS: A
20. ANS: B
21. ANS: B
22. ANS: D
23. ANS: B
24. ANS: C
25. ANS: A
SHORT ANSWER

26. ANS:
   (A) Unbilled receivables 10,000
       Revenue 10,000

   (B) Accounts receivable 10,000
       Unbilled receivables 10,000

   (C) Cash 10,000
       Accounts receivable 10,000

   (D) Recognized when the service was provided
       Realized when the cash was received.

27. ANS:
   (A) Cash 15,000
       Unearned revenue 15,000

   (B) Unearned revenue 15,000
       Revenue 15,000

   (C) Unearned revenue 15,000
       Revenue 15,000
PROBLEM

28. ANS:

1) Inventory  900,000  Accounts payable  900,000

2) Accounts receivable  1,000,000  Revenue/sales  1,000,000
    Cost of sales  800,000  Inventory  800,000

3) Cash  975,000  Accounts receivable  975,000

4) Accounts payable  750,000  Cash  750,000

5) Prepaid expenses  24,000  Cash  24,000

6) Cash  25,000  Unearned revenue  25,000

7) Cash  75,000  Common Stock  75,000

PART II- ADJUSTING ENTRIES:

ADJUST PREPAID RENT FOR 7 MONTHS PASSING:

Rent expense  16,000  Prepaid expenses  16,000

ACCRUE INTEREST EXPENSE:

Interest expense  60,000  Accrued expense  60,000

ENDING TRIAL BALANCE:

In place of T-Accounts:

<table>
<thead>
<tr>
<th>Account Title</th>
<th>DR/ &lt;CR&gt; (in 000's)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash</td>
<td>801,000 =500+975-750-24+25+75</td>
</tr>
<tr>
<td>Accounts receivable</td>
<td>75,000 =50+1000-975</td>
</tr>
<tr>
<td>Inventory</td>
<td>300,000 =200+900-800</td>
</tr>
<tr>
<td>Prepaid expenses</td>
<td>8,000 =0+24-16</td>
</tr>
<tr>
<td>Accounts payable</td>
<td>&lt;190,000&gt; =40+900-750</td>
</tr>
<tr>
<td>Accrued expenses (interest)</td>
<td>&lt;60,000&gt; =0+60</td>
</tr>
<tr>
<td>Unearned revenue</td>
<td>&lt;25,000&gt; =0+25000</td>
</tr>
<tr>
<td>Debt</td>
<td>&lt;500,000&gt; =500+0</td>
</tr>
<tr>
<td>Retained earnings</td>
<td>&lt;234,000&gt; =110+1000-800-16-60</td>
</tr>
<tr>
<td>Common stock</td>
<td>(175,000) =100+75</td>
</tr>
</tbody>
</table>
Net debit/ <Credit> 0

OTHER

29. ANS:

.