ACCOUNTING 2001
CLASS 6 REVIEW EXERCISE
(Answer these questions and check answers as soon as possible after each class)

Class 6 Key Concepts:  Adjusting Entries

ADJUSTING ENTRIES (CHAPTER 3)

EXAMPLE #1 On December 1, 2011 Casio Company received $12,000 for services to be earned over the next six months. A real account (Unearned Revenue) was credited. The Company adjusts and closes its accounting records on December 31.

a. Prepare the general journal entry required on December 1, 2011.

b. As of December 31, 2011, what should the adjusted balances in Unearned Revenue and Revenue be?

Unearned Revenue $ Revenue $

12,000

c. Prepare the general journal entry required to adjust the accounts on December 31, 2011.

d. Prepare T-accounts to demonstrate the correctness of your adjusting entry.

Unearned Revenue

Revenue

12,000

e. If the adjusting entry is NOT made, what will be the impact (overstated, understated, no effect) on each of the following:

- Total revenues on the income statement
- Net income on the income statement
- Total assets on the balance sheet
- Total liabilities on the balance sheet
- Total owners’ equity on the balance sheet

EXAMPLE #2 On December 1, 2011 Casio Company received $12,000 for services to be earned over the next six months. A temporary account (Revenue) was credited. The Company adjusts and closes its accounting records on December 31.

a. Prepare the general journal entry required on December 1, 2011.

b. As of December 31, 2011, what should the adjusted balances in Unearned Revenue and Revenue be?

Unearned Revenue $ Revenue $

12,000

c. Prepare the general journal entry required to adjust the accounts on December 31, 2011.

d. Prepare T-accounts to demonstrate the correctness of your adjusting entry.

Unearned Revenue

Revenue

12,000

e. If the adjusting entry is NOT made, what will be the impact (overstated, understated, no effect) on each of the following:

- Total revenues on the income statement
- Net income on the income statement
- Total assets on the balance sheet
- Total liabilities on the balance sheet
- Total owners’ equity on the balance sheet
Answers to Class 6 Review Quiz

EXAMPLE #1 On December 1, 2011 Casio Company received $12,000 for services to be earned over the next six months. A real account (Unearned Revenue) was credited. The Company adjusts and closes its accounting records on December 31.

a. Prepare the general journal entry required on December 1, 2011.

Cash 12,000

Unearned Revenue 12,000

b. As of December 31, 2011, what should the adjusted balances in Unearned Revenue and Revenue be?

Unearned Revenue $10,000

Revenue $2,000

c. Prepare the general journal entry required to adjust the accounts on December 31, 2011.

Unearned Revenue 2,000

Revenue 2,000

d. Prepare T-accounts to demonstrate the correctness of your adjusting entry.

<table>
<thead>
<tr>
<th>Unearned Revenue</th>
<th>Revenue</th>
</tr>
</thead>
<tbody>
<tr>
<td>12,000</td>
<td>2,000</td>
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<tr>
<td>2,000</td>
<td>2,000 Bal</td>
</tr>
<tr>
<td>10,000 Bal</td>
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</tbody>
</table>

e. If the adjusting entry is NOT made, what will be the impact (overstated, understated, no effect) on each of the following:

- Total revenues on the income statement: -2,000
- Total expenses on the income statement: 0
- Net income on the income statement: -2,000
- Total assets on the balance sheet: 0
- Total liabilities on the balance sheet: +2,000
- Total owners’ equity on the balance sheet: -2,000

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EXAMPLE #2 On December 1, 2011 Casio Company received $12,000 for services to be earned over the next six months. A temporary account (Revenue) was credited. The Company adjusts and closes its accounting records on December 31.

a. Prepare the general journal entry required on December 1, 2011.

Cash 12,000

Revenue 12,000

b. As of December 31, 2011, what should the adjusted balances in Unearned Revenue and Revenue be?

Unearned Revenue $10,000

Revenue $2,000

c. Prepare the general journal entry required to adjust the accounts on December 31, 2011.

Revenue 10,000

Unearned Revenue 10,000

d. Prepare T-accounts to demonstrate the correctness of your adjusting entry.

<table>
<thead>
<tr>
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<tr>
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<td>10,000 Bal</td>
<td>2,000 Bal</td>
</tr>
</tbody>
</table>

e. If the adjusting entry is NOT made, what will be the impact (overstated, understated, no effect) on each of the following:

- Total revenues on the income statement: +10,000
- Total expenses on the income statement: 0
- Net income on the income statement: +10,000
- Total assets on the balance sheet: 0
- Total liabilities on the balance sheet: -10,000
- Total owners’ equity on the balance sheet: +10,000