ACC1701XA
AY2025 / 2026 SEMESTER 1

POST LECTURE SUPPLEMENT
LECTURE 04

Ready, Set… Adjust FS Speed Challenge

1) Which of the following is least likely to be an adjusting journal entry?
    a. Debit Interest Expense, Credit Interest Payable
    b. Debit Unearned Revenue, Credit Sales Revenue
    c. Debit Unearned Revenue, Credit Cash
    d. Debit Rent Expense, Credit Prepaid Rent

2) When you forget to make an adjusting entry to recognize rent expense from your (existing) prepaid rent, what happens to your Income Statement?
    a. Expense is understated, Net Income is overstated.
    b. Expense is overstated, Net Income is understated.
    c. Expense is understated, No effect on net income
    d. No effect on Income Statement.

    Explanation: The adjusting journal entry (AJE) should have been:
    Dr Rent Expense
    Cr Prepaid Rent
    If the above entry is not made, then the Income Statement will have less rent expense, thus expense is understated. If expense is understated, that means that net income will be overstated.

3) When you forget to make an adjusting entry to recognize rent expense from your (existing) prepaid rent, what happens to your Statement of Financial Position?
    a. Asset is understated. Liability is understated. Equity is unaffected.
    b. Asset is understated. Liability is unaffected. Equity is understated.
    c. Asset is overstated. Liability is overstated. Equity is unaffected.
    d. Asset is overstated. Liability is unaffected. Equity is overstated.

    Explanation: The AJE should have been:
    Dr Rent Expense
    Cr Prepaid Rent
    Continuing the explanation from Q2 above, if net income is overstated, that means that Equity is overstated. Furthermore, the adjusting entry should have reduced the Prepaid Rent asset account, but since the AJE was not made, that means that Asset is now overstated. This AJE does not affect any liability accounts, so liability is unaffected.

4) Which of the following trial balance is used to prepare Income Statement?
    a. Unadjusted Trial Balance
    b. Adjusted Trial Balance
    c. Post-closing Trial Balance
    d. We do not need to use a trial balance to prepare Income Statement.

5) Which of the following accounts will have a zero balance after the closing process?
    a. Unearned Revenue
    b. Dividends Payable
    c. Rent Expense
    d. Retained Earnings

6) When Saja & Co was preparing its financial statement, it made an adjusting entry to its Unearned Revenue account. But instead of crediting Sales Revenue, it had incorrectly credited Accounts Receivable instead. What is the effect on its FS?
    a. Asset is understated, Liability is understated, Equity is correct.
    b. Asset is understated, Liability is correct, Equity is understated.
    c. Asset is correct, Liability is understated, Equity is overstated.
    d. Asset is overstated, Liability is correct, Equity is overstated.

Explanation:

Incorrect AJE	Correct AJE
Dr Unearned Revenue	Dr Unearned Revenue
Cr Accounts Receivable	Cr Sales Revenue

The incorrect entry had credited Accounts Receivable, which is an asset account, resulting in Asset being understated. Since Sales Revenue was not credited, that means that revenue is understated, which means that Equity will also be understated. The debit of the unearned revenue is correct, so liability amount is correct.

7) The table shows the balances of some of Saja & Co accounts right before the closing process. Saja & Co is performing its closing entry (using one single journal entry), what is the entry to its Retained Earnings?

Unearned Revenue	15,000
Dividends Payable	20,000
Dividends	35,000
Sales Revenue	420,000
Expenses	365,000

Answer: Credit Retained Earnings $20,000 (Sales 420,000 – Expenses 365,000 – Div 35,000)

8) During the closing process, Rumi Inc. entered the following closing entry with regards to its dividends. What is the effect on the beginning balance of its accounts in the next fiscal period? (Rumi Inc. declared dividends of $120,000 this year)

	Debit	***Credit***
Dividends Payable	50,000	
Retained Earnings	70,000	
Dividends		120,000

a. Dividends Payable is understated by $70,000
b. Dividends is understated by $70,000
c. Retained Earnings is understated by $50,000
d. Retained Earnings is overstated by $50,000

Explanation: At the end of the fiscal period, the temporary dividends account should be closed out to the permanent Retained Earnings account. The correct closing entry should have been:

Dr Retained Earnings	120,000	
Cr Dividends		120,000

Instead of closing out the full dividends amount of 120k to its RE, Rumi Inc. had only debited RE for 70k. That means that the ending RE balance is going to be overstated by 50k (120k -70k).

To illustrate with an example, assuming that the beginning RE balance of Rumi Inc. is 300k and Net Income for the period is 200k. The correct closing entries will result in the correct ending RE balance of 380k (300k + 200k –120k). However, in the question given, Rumi Inc. had entered an incorrect closing entry. Instead of closing out the full amount of 120k to its RE, Pineapple Inc. had only debited RE for 70k, and incorrectly debited Dividends Payable for 50k. That means that the ending RE balance is now 430k (300k + 200k –70k), which is an overstatement of RE by 50k (compared to the correct balance of 380k, the 430k is overstated by 50k).

Furthermore, with the incorrect closing entry, Liability is also affected, as Dividends Payable is incorrectly reduced by 50k, which causes an understatement of Liability by 50k.

9) Imagine you're thinking about putting more money into investing in Saja & Co. As you go through its financial statements, which of the following would you be the most concerned about? (Choose the best answer)

a. Making sure Saja & Co are not overstating its asset and its liabilities
b. Making sure Saja & Co are not understating its asset and its liabilities

c. Making sure Saja & Co are not understating its asset, and overstating its liabilities
d. Making sure Saja & Co are not overstating its asset, and understating its liabilities

10) What accounting basis do all public companies use? Accrual basis

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