**Question Bank for Chapter 3 - The Adjusting Process**

**Theory:**

1. How does the time period assumption affect an accountant’s analysis of business transactions? Explain the terms fiscal year, calendar year, and interim periods.
2. Why do accrual-basis financial statements provide more useful information than cash-basis statements?
3. “Adjusting entries are required by the historical cost principle of accounting.” Do you agree? Explain.
4. Distinguish between the two categories of adjusting entries, and identify the types of adjustments applicable to each category.
5. “Depreciation is a valuation process that results in the reporting of the fair value of the asset.” Do you agree? Explain.

**Math:**

**Problem-1: -**

|  |  |  |
| --- | --- | --- |
| Particulars | Debit | Credit |
| Prepaid Insurance | 3,600 |  |
| Office Supplies | 2,800 |  |
| Office Equipment | 25,000 |  |
| Accumulation Depreciation--- Office Equipment |  | 5,000 |
| Unearned Revenue |  | 9,200 |

The ledger of Hammond Inc. on March 31, 2022 includes the following selected accounts before adjusting entries.

An analysis of the accounts shows the following.

1. Insurance expires at the rate of $100 per month.
2. Supplies on hand total $800
3. The office equipment depreciates $200 a month.
4. One-half of the unearned revenue was earned in March.

Instructions: Prepare the adjusting entries for the month of march.

**Problem-2: -**

The Green Thumb Lawn Care Company began operations on April 1. At April 30, the trial balance shows the following balance for selected accounts.

|  |  |  |
| --- | --- | --- |
| Particulars | Debit | Credit |
| Prepaid Insurance | 3,600 |  |
| Equipment | 28,000 |  |
| Notes Payable |  | 20,000 |
| Unearned Service Revenue |  | 4,200 |
| Service Revenue |  | 1,800 |

Analysis reveals the following additional data.

1. Prepaid insurance is the cost of a 2-year insurance policy, effective April 1.
2. Depreciation on the equipment is $500 per month.
3. The note payable is dated April 1. Interest rate12% note.
4. One-half of the unearned revenue was earned in April.
5. Lawn service performed for other customers but not recorded at April 30 totaled $1,500.

Instructions: Prepare the adjusting entries for the month of April. Show computation.

**Problem-3: -**

The ledger of Passehl Rental Agency on March 31 of the current year includes the selected accounts, shown below before adjusting entries have been prepared.

|  |  |  |
| --- | --- | --- |
| Particulars | Debit | Credit |
| Prepaid Insurance | 3,600 |  |
| Supplies | 2,800 |  |
| Equipment | 25,000 |  |
| Accumulation Depreciation---Equipment |  | 8,400 |
| Notes Payable |  | 20,000 |
| Unearned Service Revenue |  | 10,200 |
| Rent Revenue |  | 60,000 |
| Interest Expense | --0-- |  |
| Salaries and Wages Expense | 14,000 |  |

An analysis of the accounts shows the following.

1. The equipment depreciates $400 per month
2. One-third of the unearned rent revenue was earned during quarter
3. Interest of $ 500 is accrued on the notes payable.
4. Supplies on hand total $750
5. Insurance expires at the rate of $300 per month.

Instructions: Prepare the adjusting entries at march 31, assuming that adjusting entries are made quarterly. Additional accounts are Depreciation Expense, Insurance Expense, Interest Payable and Supplies Expense.

**Problem-4: -**

The ledger of MachBazar.Com on April 30, 2023 includes the following selected accounts before adjusting entries.

|  |  |  |
| --- | --- | --- |
| **Account Name** | **Dr** | **Cr** |
| Cash/Bank | 443,500 |  |
| Accounts Receivables | - |  |
| Inventories | 900,000 |  |
| Supplies | 15,000 |  |
| Furniture | 550,000 |  |
| Equipment | 200,000 |  |
| Building | 1,500,000 |  |
| Land | 1,000,000 |  |
| Prepaid Insurance | 60,000 |  |
| Accounts Payable |  | - |
| Notes Payable |  | - |
| Loan |  | 3,000,000 |
| Capital |  | 2,000,000 |
| Drawings |  | (50,000) |
| Revenues |  | - |
| Expenses |  | (281,500) |
| **Sub-Total** | **4,668,500** | **4,668,500** |

An analysis of the accounts shows the following.

* + 1. Insurance expires at the rate of Tk. 1,000/- per month.
    2. Supplies on hand total Tk. 8,500/-.
    3. Inventories on hand total Tk. 7,08,500/-.
    4. The Furniture, Equipment and Building depreciates @ 10%, 5% and 2% respectively.
    5. Interest of 5% per annum is accrued on the Loan, but not adjusted.
    6. A sale was occurred during the April as of Tk. 220,225/-, however the entry was not recorded.

Instructions: Prepare the adjusting entries for the month of march.