ANSWERS TO QUESTIONS

1. No. A worksheet is not a permanent accounting record. The use of a worksheet is an optional step in the accounting cycle.

2. The worksheet is merely a device used to make it easier to prepare adjusting entries and the financial statements.

3. The amount shown in the adjusted trial balance column for an account equals the account balance in the ledger after adjusting entries have been journalized and posted.

4. The net income of $12,000 will appear in the income statement debit column and the balance sheet credit column. A net loss will appear in the income statement credit column and the balance sheet debit column.

5. Formal financial statements are needed because the columnar data are not properly arranged and classified for statement purposes. For example, a drawing account is listed with assets.

6. (1) (Dr) Individual revenue accounts and (Cr) Income Summary.
   (2) (Dr) Income Summary and (Cr) Individual expense accounts.
   (3) (Dr) Income Summary and (Cr) Owner's Capital (for net income).
   (4) (Dr) Owner's Capital and (Cr) Owner's Drawings.

7. Income Summary is a temporary account that is used in the closing process. The account is debited for expenses and credited for revenues. The difference, either net income or net loss, is then closed to the owner's capital account.

8. The post-closing trial balance contains only balance sheet accounts. Its purpose is to prove the equality of the permanent account balances that are carried forward into the next accounting period.

9. The accounts that will not appear in the post-closing trial balance are Depreciation Expense; Owner's Drawing; and Service Revenue.

10. A reversing entry is the exact opposite, both in amount and in account titles, of an adjusting entry and is made at the beginning of the new accounting period. Reversing entries are an optional step in the accounting cycle.

11. The steps that involve journalizing are: (1) journalize the transactions, (2) journalize the adjusting entries, and (3) journalize the closing entries.

12. The three trial balances are the: (1) trial balance, (2) adjusted trial balance, and (3) post-closing trial balance.

13. Correcting entries differ from adjusting entries because they: (1) are not a required part of the accounting cycle, (2) may be made at any time, and (3) may affect any combination of accounts.

14. The standard classifications in a balance sheet are:

Assets	Liabilities and Owner's Equity
Current Assets	Current Liabilities
Long-term Investments	Long-term Liabilities
Property, Plant, and Equipment	Owner's Equity
Intangible Assets	

15. The operating cycle of a company is the average time that it takes to purchase inventory, sell it on account, and then collect cash from customers.

16. Current assets are assets that a company expects to convert to cash or use up in one year. Some companies use a period longer than one year to classify assets and liabilities as current because they have an operating cycle longer than one year. Companies usually list current assets in the order in which they expect to convert them into cash.

17. Long-term investments are generally investments in stocks and bonds of other companies that are normally held for many years. Property, plant, and equipment are assets with relatively long useful lives that a company is currently using in operating the business.

18. (a) The owner's equity section for a corporation is called **stockholders' equity.**
(b) The two accounts and the purpose of each are: (1) **Common stock** is used to record investments of assets in the business by the owners (stockholders). (2) **Retained earnings** is used to record net income retained in the business.

19. PepsiCo's current liabilities at December 26, 2009 and December 27, 2008 were $8,756 million and $8,787 million respectively. PepsiCo's current liabilities were significantly lower than its current assets in both years.

***20.** After reversing entries have been made, the balances will be Interest Payable, zero balance; Interest Expense, a credit balance.

***21.** (a)

Jan. 10	Salaries and Wages Expense	8,000	
	Cash		8,000

Because of the January 1 reversing entry that credited Salaries and Wages Expense for $3,500, Salaries and Wages Expense will have a debit balance of $4,500 which equals the expense for the current period.

(b)

Jan. 10	Salaries and Wages Payable	3,500	
	Salaries and Wages Expense	4,500	
	Cash		8,000

Note that Salaries and Wages Expense will again have a debit balance of $4,500.