

Module I: Chapter 3: Review Questions Assignment

- What is the difference between the cash basis and the accrual basis of accounting? Cash accounting recognize revenue and expenses only when money changes hands, but accrual accounting recognizes revenue when it's earned, and expenses when they're billed but not all the way paid.
- Why is the accrual basis of accounting generally preferred over the cash basis? It reflects a better association of revenues and expenses with the appropriate accoutning period. The accrual basis of accounting recognize all resource changes when they occur.
- What is a prepaid expense and where is it reported in the financial statements? A prepaid expense is a type of asset on the balance sheet that results from a business making advanced payments for goods or services to be recieved in the future. They are recorded initially as assests, but their value is expensed over time onto the income statement.
- What type of assets require adjusting entries to record depreciation? Includes anything that is expected to be used for longer that a year, like buildings and machinery, with the exception of land.
- What contra account is used when recording and reporting the effects of depreciation? Why is it used? Amortization of assets and its used to spread the cost of intangible asset over its useful life, or the life of the intangible asset in the business.
- What is unearned revenue and where is it reported in the financial statements? Unearned revenue is money received by an individual or company for a service or product that has yet to be provided or delivered. Its recorded on a company's balance sheet as a liability.
- What is an accrued revenue? Give an example. Accrued revenue is revenue that has been earned by providing a good or service, but for which no cash has been received. Accrued interest revenue.
- What is a trial balance? is a list of all the general ledger accounts contained in the ledger of a business.
- What is a adjusted trial balance? is an internal document that lists the general ledger account titles and their balances after any adjustments have been made.
- List the type of financial statements prepared at the end of the year. Income statement, retained earnings statement, balance sheet and statement of cash flows.