1. **Answer: D** – Accruing salary expense increases liabilities (salaries payable) and increases expense, which decreases net income and equity. It does not affect cash flows.

2. **Answer: A** – The recognition of rent expense on December 31 will decrease assets (prepaid rent) and increase expenses, which decreases net income and equity. It does not affect cash flows.

3. **Answer: D** – When North receives the advance, assets (cash) increase and liabilities (unearned revenue) increases. It is a cash inflow for operating activities.

4. **Answer: A** – On December 31, North will recognize 5 months of revenue. Liabilities (unearned revenue) will decrease and revenue will increase, which increases net income and equity. Adjusting entries never affect cash flows.

5. **Answer: C** – The purchase of supplies for cash involves a deferral rather than an accrual. Accruals occur when revenue or expense is recognized before cash is exchanged.

6. **Answer: B** - $15,000 revenue on account - $10,100 cash expenses = $4,900 net income

7. **Answer: A** - $13,300 cash collected from customers - $10,100 cash expenses = $3,200 cash flow from operating activities

8. **Answer: D** – In accrual accounting, revenue is recorded when it is earned and expenses are recorded when they are incurred, regardless of when cash is received or paid.

9. **Answer: A** – Revenue may be accompanied by a decrease in a liability, for example when unearned revenue (a liability) is earned. Of course, revenue is often accompanied by an increase in assets, such as cash or accounts receivable, but that was not one of the choices.

10. **Answer: D** – The adjusting entry at year-end will reduce liabilities (unearned revenue) and revenue will increase equity (retained earnings).

11. **Answer: A** – Supplies on the balance sheet are equal to the $600 of supplies on hand at the end of the year. The supplies expense are equal to the amount of supplies used during the year. $200 beginning balance + $1,400 purchased - $600 on hand at the end = $1,000 used.

12. **Answer: C** – Cash flows from operations equal $8,700 cash collected from receivables minus $7,000 paid for operating expenses.

13. **Answer: D** – Accruing salary expense on December 31 will decrease net income, but will not affect cash flows from operating activities. Paying for 1 year’s rent in advance on February 1 will be a cash outflow for operating activities, but only 11/12ths of the rent will be recognized as expense on the income statement for the year.

14. **Answer: C** – Accruing the revenue earned on the contract at year-end will decrease liabilities (unearned revenue) and increase revenue, which will also increase equity (retained earnings).

15. **Answer: A** – Rent expense is $750 per month ($9,000/12 months). At year end, the company will recognize 4 months of rent, $3,000. The remaining $6,000 will be reported on the balance sheet as prepaid rent.

16. **Answer: B** – Providing services on account does not require an adjusting entry because the revenue is recognized when the customer is billed, not accrued at year end. Supplies expense and rent expense (when related to prepaid rent) both require year-end adjusting entries.

17. **Answer: A** – The account Supplies is an asset on the balance sheet. Supplies Expense is an income statement account.

18. **Answer: C** – Supplies expense is a temporary account that is closed to retained earnings at the end of the accounting period. Unearned revenue is a liability account and prepaid rent is an asset account.

19. **Answer: B** – Revenue for 2015 = $15,000 + $7,000 + ($3,000/6 x 2) = $23,000. Cash flow from operating activities = $12,500 + $7,000 + $3,000 = $22,500

20. **Answer: B** – When previously accrued salaries are paid, net income is not affected. Assets (cash) and liabilities (salaries payable) both decrease.