1. Identify impact of transactions on cash and net income.

Transactions that affect earnings do not necessarily affect cash.

**Instructions:**

Identify the effect, if any, that each of the following transactions would have upon cash and net income. The first transaction has been completed as an example.

 Cash Net Incom

1. Purchased $100 of supplies for cash. -$100 $0
2. Recorded an adjusting entry to record use of $30 of the above supplies
3. Made sales of $1,300, all on account.
4. Received $800 from customers in payment of their accounts.
5. Purchased capitol asset cash, $2,500.
6. Recorded depreciation of building for period used, $600.
7. Indicate why adjusting entries are needed.

The ledger of T.J. Bahr Company includes the following accounts. Explain why each account may require adjustment.

Prepaid Insurance.

Depreciation Expense.

Unearned Service Revenue.

Interest Payable.

1. Identify the major types of adjusting entries.

Lena Company accumulates the following adjustment data at December 31. Indicate (1) the type of adjustment (prepaid expense, accrued revenue, and so on) and (2) the status of the accounts before adjustment (overstated or understated).

Supplies of $400 are on hand. Supplies account shows $1,900 balance.

Service Revenue earned but unbilled total $700.

Interest of $300 has accumulated on a note payable.

Rent collected in advance totaling $1,100 has been earned.