<table>
<thead>
<tr>
<th>Chapter Number</th>
<th>Summary Problem</th>
<th>Exercises</th>
</tr>
</thead>
<tbody>
<tr>
<td>Chapter 1</td>
<td>Page 52 to 53</td>
<td>E1-21 (page 63)</td>
</tr>
<tr>
<td></td>
<td></td>
<td>E1-24 (page 64)</td>
</tr>
<tr>
<td></td>
<td></td>
<td>P1-41 (page 70)</td>
</tr>
<tr>
<td></td>
<td></td>
<td>P1-42 (page 71)</td>
</tr>
<tr>
<td>Chapter 2</td>
<td>Page 117 to 120</td>
<td>P2-30 (page 137)</td>
</tr>
<tr>
<td>Chapter 3</td>
<td>Page 189 to 191</td>
<td>E3-21 (page 203)</td>
</tr>
<tr>
<td></td>
<td></td>
<td>E3-22 (page 203)</td>
</tr>
<tr>
<td></td>
<td></td>
<td>P3-33 (page 210)</td>
</tr>
<tr>
<td>Chapter 4</td>
<td>Page 256 to 260</td>
<td>P4-27 (page 278)</td>
</tr>
<tr>
<td>Chapter 5</td>
<td>Page 328 to 331</td>
<td>S5-27 (page 350)</td>
</tr>
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<td></td>
<td></td>
<td>S5-31 (page 351)</td>
</tr>
<tr>
<td>Chapter 6</td>
<td>Page 418 to 427</td>
<td>E6-21 (page 300)</td>
</tr>
<tr>
<td></td>
<td></td>
<td>E6-22 (page 300)</td>
</tr>
<tr>
<td></td>
<td></td>
<td>P6-33 (page 310)</td>
</tr>
<tr>
<td>Chapter 7</td>
<td>Page 516 only</td>
<td>E7-21 (page 330)</td>
</tr>
<tr>
<td>Chapter 8</td>
<td>Page 598 to 601</td>
<td>S8-11 (Page 610)</td>
</tr>
<tr>
<td>Chapter 9</td>
<td>Page 666 to 667</td>
<td>E9-21 (Page 662)</td>
</tr>
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<td></td>
<td></td>
<td>P9-33 (Page 670)</td>
</tr>
<tr>
<td>Chapter 10</td>
<td>Page 741 only</td>
<td>E10-18 (Page 690)</td>
</tr>
<tr>
<td>Chapter 11</td>
<td>Page 841 to 842</td>
<td>E10-18 (Page 690)</td>
</tr>
<tr>
<td></td>
<td></td>
<td>P10-33 (Page 840)</td>
</tr>
</tbody>
</table>

Spring 2016-2017

ACCT201

MCQ Comprehensive

Problems on Ch. 5+6+8+9+10+11
### Exhibit 5-8 | Multi-Step Income Statement

<table>
<thead>
<tr>
<th>Category</th>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sales Revenue</td>
<td>2,000,000</td>
<td></td>
</tr>
<tr>
<td>Less: Sales Returns and Allowances</td>
<td>(100,000)</td>
<td></td>
</tr>
<tr>
<td>Gross Sales</td>
<td>1,900,000</td>
<td></td>
</tr>
<tr>
<td>Less: Sales Discounts</td>
<td>(5,000)</td>
<td></td>
</tr>
<tr>
<td>Net Sales Revenue</td>
<td>1,895,000</td>
<td></td>
</tr>
<tr>
<td>Cost of Goods Sold</td>
<td>(1,200,000)</td>
<td></td>
</tr>
<tr>
<td>Gross Profit</td>
<td>695,000</td>
<td></td>
</tr>
<tr>
<td>Operating Expenses</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Salaries Expense</td>
<td>500,000</td>
</tr>
<tr>
<td></td>
<td>Rent Expense</td>
<td>200</td>
</tr>
<tr>
<td></td>
<td>Advertising Expense</td>
<td>1,400</td>
</tr>
<tr>
<td></td>
<td>Depreciation Expense</td>
<td>2,200</td>
</tr>
<tr>
<td></td>
<td>Supply Expense</td>
<td>1,600</td>
</tr>
<tr>
<td></td>
<td>Total Operating Expenses</td>
<td>(9,600)</td>
</tr>
<tr>
<td>Operating Income</td>
<td>685,400</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Other Revenue and Expenses</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Interest Expense</td>
<td>(12,000)</td>
</tr>
<tr>
<td></td>
<td>Total Other Revenue and Expenses</td>
<td>(12,000)</td>
</tr>
<tr>
<td>Net Income</td>
<td>673,400</td>
<td></td>
</tr>
</tbody>
</table>
Requirement 1

<table>
<thead>
<tr>
<th>Date</th>
<th>Accounts and Explanation</th>
<th>Debit</th>
<th>Credit</th>
</tr>
</thead>
<tbody>
<tr>
<td>Dec. 31</td>
<td>Sales Revenue</td>
<td>696,000</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Interest Revenue</td>
<td>5,000</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Income Summary</td>
<td></td>
<td>701,000</td>
</tr>
<tr>
<td>Dec. 31</td>
<td>Income Summary</td>
<td>466,200</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Sales Returns and Allowances</td>
<td></td>
<td>39,200</td>
</tr>
<tr>
<td></td>
<td>Sales Discounts</td>
<td></td>
<td>9,000</td>
</tr>
<tr>
<td></td>
<td>Cost of Goods Sold</td>
<td></td>
<td>385,000</td>
</tr>
<tr>
<td></td>
<td>Rent Expense</td>
<td></td>
<td>21,000</td>
</tr>
<tr>
<td></td>
<td>Depreciation Expense—Building</td>
<td></td>
<td>12,000</td>
</tr>
<tr>
<td>Dec. 31</td>
<td>Income Summary</td>
<td>234,800</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Rockwell, Capital</td>
<td></td>
<td>234,800</td>
</tr>
<tr>
<td>Dec. 31</td>
<td>Rockwell, Capital</td>
<td>61,000</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Rockwell, Withdrawals</td>
<td></td>
<td>61,000</td>
</tr>
</tbody>
</table>

Requirement 2
Ending Balance in Rockwell, Capital is $382,600 ($208,800 + $234,800 − $61,000)

CAROLINA COMMUNICATIONS
Income Statement
Year Ended July 31, 2015

Sales Revenue                                      $ 40,000
Less: Sales Returns and Allowances                7,200
Sales Discounts                                   4,800
Net Sales Revenue                                  $ 28,000
Cost of Goods Sold                                 18,000
Gross Profit                                       10,000
Operating Expenses:
Selling Expenses                                  1,000
Administrative Expenses                           2,500
Total Operating Expenses                           3,500
Operating Income                                   6,500
Other Revenues and (Expenses):
Interest Expense                                   (30)
Total Other Revenues and (Expenses)                (30)
Net Income                                         $ 6,470
Chapter 6

Potter paradise carries an inventory of putters and other golf clubs. Potter uses the average-cost method and a perpetual inventory system. Sales price of each putter is $141. Company records indicate the following for a particular line of Potter paradise putters:

<table>
<thead>
<tr>
<th>Date</th>
<th>Item</th>
<th>Quantity</th>
<th>Unit Cost</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Balance</td>
<td>4</td>
<td>$93</td>
</tr>
<tr>
<td>6</td>
<td>Sale</td>
<td>2</td>
<td></td>
</tr>
<tr>
<td>17</td>
<td>Purchase</td>
<td>6</td>
<td>$74</td>
</tr>
<tr>
<td>20</td>
<td>Sale</td>
<td>2</td>
<td>$75</td>
</tr>
<tr>
<td>30</td>
<td>Sale</td>
<td>2</td>
<td></td>
</tr>
</tbody>
</table>

Requirements:
1. Prepare perpetual inventory record for the putters using the average method.

<table>
<thead>
<tr>
<th>Date</th>
<th>Purchases</th>
<th>COGS</th>
<th>Balance</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sept 6</td>
<td></td>
<td>2*(550+150) = $126</td>
<td></td>
</tr>
<tr>
<td>Sept 8</td>
<td>8*(524+170) = $592</td>
<td>10*(571.8+176) = $718</td>
<td></td>
</tr>
<tr>
<td>Sept 17</td>
<td>4*(521.8+187) = $1287</td>
<td>6*(572.8+154) = $541</td>
<td></td>
</tr>
<tr>
<td>Sept 20</td>
<td>2*(575+150) = $150</td>
<td>2*(572.8+154) = $541</td>
<td></td>
</tr>
<tr>
<td>Sept 30</td>
<td>2*(572.8+154) = $541</td>
<td>2*(572.8+154) = $541</td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>10</td>
<td>$142</td>
<td>6</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Account</th>
<th>Debit</th>
<th>Credit</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sept 6 A/R or Cash 2*$141</td>
<td>282</td>
<td>282</td>
</tr>
<tr>
<td>Sales Revenue</td>
<td></td>
<td></td>
</tr>
<tr>
<td>COGS</td>
<td>126</td>
<td></td>
</tr>
<tr>
<td>Inventory</td>
<td>126</td>
<td></td>
</tr>
<tr>
<td>Sept 8 Inventory</td>
<td>592</td>
<td>592</td>
</tr>
<tr>
<td>Sept 17 A/R or Cash 4*$141</td>
<td>564</td>
<td>564</td>
</tr>
<tr>
<td>Sales Revenue</td>
<td></td>
<td></td>
</tr>
<tr>
<td>COGS</td>
<td>287</td>
<td>287</td>
</tr>
<tr>
<td>Inventory</td>
<td>287</td>
<td></td>
</tr>
<tr>
<td>Sept 20 Inventory</td>
<td>150</td>
<td>150</td>
</tr>
<tr>
<td>Sept 30 A/R or Cash 2*$141</td>
<td>282</td>
<td>282</td>
</tr>
<tr>
<td>Sales Revenue</td>
<td></td>
<td></td>
</tr>
<tr>
<td>COGS</td>
<td>145</td>
<td>145</td>
</tr>
<tr>
<td>Inventory</td>
<td>145</td>
<td></td>
</tr>
</tbody>
</table>

| End. Inventory | 2456   |
| Sales Revenue (8*141) | 51,128 |
| COGS            | 3558   |
| Gross Profit (51,128-3558) | $1550 |
E6-21, cont.
Requirement 2

Using LIFO, cost of goods sold is $268, ending merchandise inventory is $96, and gross profit is $172.

Calculations:

<table>
<thead>
<tr>
<th>Date</th>
<th>Purchases</th>
<th>Cost of Goods Sold</th>
<th>Inventory on Hand</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Quantity</td>
<td>Unit Cost</td>
<td>Total Cost</td>
</tr>
<tr>
<td>Dec. 1</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>8</td>
<td>9 units</td>
<td>$11</td>
</tr>
<tr>
<td></td>
<td>14</td>
<td>17 units</td>
<td>$13</td>
</tr>
<tr>
<td></td>
<td>21</td>
<td>13 units</td>
<td>$13</td>
</tr>
<tr>
<td></td>
<td>Totals</td>
<td>17 units</td>
<td>$221</td>
</tr>
</tbody>
</table>

Sales Revenue $440
Less: Cost of Goods Sold 268
Gross Profit $172

(b) Calculated in Requirement 1.
## Requirement 1

### WINCHESTER HEALTHCARE

**Bank Reconciliation**  
**August 31, 2015**

<table>
<thead>
<tr>
<th>BANK</th>
<th>BOOK</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Balance, August 31, 2015</strong></td>
<td><strong>Balance, August 31, 2015</strong></td>
</tr>
<tr>
<td><strong>ADD:</strong></td>
<td><strong>ADD:</strong></td>
</tr>
<tr>
<td>Deposit in transit</td>
<td>$ 350</td>
</tr>
<tr>
<td>Bank error</td>
<td>1,000</td>
</tr>
<tr>
<td></td>
<td>1,350</td>
</tr>
<tr>
<td></td>
<td>6,220</td>
</tr>
<tr>
<td><strong>LESS:</strong></td>
<td><strong>LESS:</strong></td>
</tr>
<tr>
<td>Outstanding checks</td>
<td></td>
</tr>
<tr>
<td>Check No. 237</td>
<td>$ 50</td>
</tr>
<tr>
<td>288</td>
<td>170</td>
</tr>
<tr>
<td>291</td>
<td>520</td>
</tr>
<tr>
<td>294</td>
<td>580</td>
</tr>
<tr>
<td>295</td>
<td>50</td>
</tr>
<tr>
<td>296</td>
<td>140</td>
</tr>
<tr>
<td></td>
<td>1,510</td>
</tr>
<tr>
<td><strong>Adjusted bank balance, August 31, 2015</strong></td>
<td><strong>Adjusted book balance, August 31, 2015</strong></td>
</tr>
</tbody>
</table>

## Requirement 2

<table>
<thead>
<tr>
<th>Date</th>
<th>Accounts and Explanation</th>
<th>Debit</th>
<th>Credit</th>
</tr>
</thead>
<tbody>
<tr>
<td>Aug. 31</td>
<td>Cash</td>
<td>Accounts Receivable</td>
<td>1,300</td>
</tr>
<tr>
<td></td>
<td></td>
<td><em>To record EFT collection on account</em></td>
<td></td>
</tr>
<tr>
<td>Aug. 31</td>
<td>Cash</td>
<td>Dividend Revenue</td>
<td>970</td>
</tr>
<tr>
<td></td>
<td></td>
<td><em>To record dividend revenue</em></td>
<td></td>
</tr>
<tr>
<td>Aug. 31</td>
<td>Cash</td>
<td>Interest Revenue</td>
<td>80</td>
</tr>
<tr>
<td></td>
<td></td>
<td><em>To record interest revenue</em></td>
<td></td>
</tr>
<tr>
<td>Aug. 31</td>
<td>Accounts Receivable ($400 + $110)</td>
<td></td>
<td>510</td>
</tr>
<tr>
<td></td>
<td>Cash</td>
<td></td>
<td>510</td>
</tr>
<tr>
<td></td>
<td></td>
<td><em>To record NSF checks</em></td>
<td></td>
</tr>
<tr>
<td>Aug. 31</td>
<td>Bank Expense</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Cash</td>
<td></td>
<td>30</td>
</tr>
<tr>
<td></td>
<td></td>
<td><em>To record bank service charges incurred</em></td>
<td></td>
</tr>
</tbody>
</table>
Chapter 10

Problem 1

On January 1, 2011, Huski Company purchased a used equipment for $350,000. The equipment cost $300,000 for transportation and installation, all of which were paid in cash. The estimated residual value is $35,000 and the estimated useful life is 5 years. The company used the straight-line depreciation method for all plant assets but is considering changing to the double-declining balance method.

Requirements:
1. Prepare journal entry to record the purchase of the equipment.
2. Prepare the depreciation schedule using the Double Declining method for the first three years only.
3. Prepare the required journal entries for depreciation for the years 2011 and 2012.

Req. 1

<table>
<thead>
<tr>
<th>Account</th>
<th>Debit</th>
<th>Credit</th>
</tr>
</thead>
<tbody>
<tr>
<td>Equipment</td>
<td>235,000</td>
<td></td>
</tr>
<tr>
<td>Cash</td>
<td></td>
<td>235,000</td>
</tr>
</tbody>
</table>

Req. 2

<table>
<thead>
<tr>
<th>Date</th>
<th>Depreciation Expense</th>
<th>Accumulated Depreciation</th>
<th>Book Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Jan. 1, 2011</td>
<td>94,000</td>
<td>94,000</td>
<td>235,000</td>
</tr>
<tr>
<td>Dec. 31, 2011</td>
<td>56,400</td>
<td>150,400</td>
<td>84,600</td>
</tr>
<tr>
<td>Dec. 31, 2012</td>
<td>33,840</td>
<td>184,240</td>
<td>50,760</td>
</tr>
</tbody>
</table>

Req. 3

<table>
<thead>
<tr>
<th>Account</th>
<th>Debit</th>
<th>Credit</th>
</tr>
</thead>
<tbody>
<tr>
<td>Depreciation exp</td>
<td>94,000</td>
<td></td>
</tr>
<tr>
<td>... Accumulated Depreciation</td>
<td>94,000</td>
<td></td>
</tr>
<tr>
<td>Depreciation exp</td>
<td>56,400</td>
<td></td>
</tr>
<tr>
<td>... Accumulated Depreciation</td>
<td>56,400</td>
<td></td>
</tr>
</tbody>
</table>
**Requirement 1**

a. Straight-line
   \[ \text{Depreciation} = \frac{(\text{Cost} - \text{Residual value})}{\text{Useful life}} \]
   \[ = \frac{($46,000,000 - $6,000,000)}{8 \text{ years}} \]
   \[ = $5,000,000 \text{ per year} \]

b. Depreciation per unit
   \[ \text{Depreciation per unit} = \frac{(\text{Cost} - \text{Residual value})}{\text{Useful life in units}} \]
   \[ = \frac{($46,000,000 - $6,000,000)}{5,000,000 \text{ miles}} \]
   \[ = $8 \text{ per mile} \]

   Units-of-production
   \[ = \text{Depreciation per unit} \times \text{Current year usage} \]
   \[ = $8 \text{ per mile} \times 1,300,000 \text{ miles} \]
   \[ = $10,400,000 \text{ in year 1} \]

   \[ = \text{Depreciation per unit} \times \text{Current year usage} \]
   \[ = $8 \text{ per mile} \times 1,000,000 \text{ miles} \]
   \[ = $8,000,000 \text{ in year 2} \]

c. Double-declining-balance
   \[ \text{Depreciation} = (\text{Cost} - \text{Accumulated depreciation}) \times 2 \times \frac{1}{\text{Useful life}} \]
   \[ = (\$46,000,000 - $0) \times 2 \times (1/8 \text{ years}) \]
   \[ = $11,500,000 \text{ in year 1} \]

   \[ = (\text{Cost} - \text{Accumulated depreciation}) \times 2 \times \frac{1}{\text{Useful life}} \]
   \[ = (\$46,000,000 - $11,500,000) \times 2 \times (1/8 \text{ years}) \]
   \[ = $8,625,000 \text{ in year 2} \]

**Requirement 2**

<table>
<thead>
<tr>
<th></th>
<th>Straight-line</th>
<th>Units-of-production</th>
<th>Double-declining-balance</th>
</tr>
</thead>
<tbody>
<tr>
<td>Depreciation Expense – year 1</td>
<td>$5,000,000</td>
<td>$10,400,000</td>
<td>$11,500,000</td>
</tr>
<tr>
<td>Depreciation Expense – year 1</td>
<td>$5,000,000</td>
<td>$8,000,000</td>
<td>$8,625,000</td>
</tr>
<tr>
<td>Total Accumulated Depreciation</td>
<td>$10,000,000</td>
<td>$18,400,000</td>
<td>$20,125,000</td>
</tr>
</tbody>
</table>

**S10-5**

Straight-line
   \[ \text{Depreciation} = \frac{(\text{Cost} - \text{Residual value})}{\text{Useful life}} \times \frac{\text{Number of Months}}{12} \]
   \[ = \frac{($40,400 - $2,000)}{4 \text{ years}} \times \frac{5}{12} \]
   \[ = $4,000 \]
<table>
<thead>
<tr>
<th>Asset</th>
<th>Market Value</th>
<th>Percentage of Total Value</th>
<th>× Total Purchase Price</th>
<th>= Assigned Cost of Each Asset</th>
</tr>
</thead>
<tbody>
<tr>
<td>Lot 1</td>
<td>$70,500</td>
<td>$70,500 / $470,000 = 15%</td>
<td>× $210,000</td>
<td>= $31,500</td>
</tr>
<tr>
<td>Lot 2</td>
<td>235,000</td>
<td>$235,000 / $470,000 = 50%</td>
<td>× $210,000</td>
<td>= 105,000</td>
</tr>
<tr>
<td>Lot 3</td>
<td>164,500</td>
<td>$164,500 / $470,000 = 35%</td>
<td>× $210,000</td>
<td>= 73,500</td>
</tr>
<tr>
<td>Total</td>
<td>$470,000</td>
<td>100%</td>
<td></td>
<td>$210,000</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Date</th>
<th>Accounts and Explanation</th>
<th>Debit</th>
<th>Credit</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Land—Lot 1</td>
<td>31,500</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Land—Lot 2</td>
<td>105,000</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Land—Lot 3</td>
<td>73,500</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Cash</td>
<td></td>
<td>210,000</td>
</tr>
</tbody>
</table>

*To record purchase of lots for cash.*
<table>
<thead>
<tr>
<th>Date</th>
<th>Accounts and Explanation</th>
<th>Debit</th>
<th>Credit</th>
</tr>
</thead>
<tbody>
<tr>
<td>2014</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>May 1</td>
<td>Equipment</td>
<td>17,000</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Notes Payable</td>
<td></td>
<td>17,000</td>
</tr>
<tr>
<td></td>
<td><em>Purchased equipment in exchange for one year, 6% note.</em></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Dec. 31</td>
<td>Interest Expense ($17,000 × 0.06 × 8/12)</td>
<td>680</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Interest Payable</td>
<td></td>
<td>680</td>
</tr>
<tr>
<td></td>
<td><em>Accrued interest expense at year-end.</em></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2015</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>May 1</td>
<td>Notes Payable</td>
<td>17,000</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Interest Expense ($17,000 × 0.06 × 4/12)</td>
<td>340</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Interest Payable</td>
<td></td>
<td>680</td>
</tr>
<tr>
<td></td>
<td>Cash</td>
<td></td>
<td>18,020</td>
</tr>
<tr>
<td></td>
<td><em>Paid note and interest at maturity.</em></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
Chapter 1

1. Managerial accounting provides information to:
   A) internal decision makers.
   B) outside investors and lenders.
   C) auditors.
   D) taxing authorities.
   Answer: A

2. The field of accounting that focuses on providing information for external decision makers is:
   A) managerial accounting.
   B) financial accounting.
   C) cost accounting.
   D) nonmonetary accounting.
   Answer: B

3. The field of accounting that focuses on providing information for internal decision makers is:
   A) managerial accounting.
   B) financial accounting.
   C) nonmonetary accounting.
   D) governmental accounting.
   Answer: A

4. Which of the following users would rely on management accounting information for decision-making purposes?
   A) potential investors
   B) creditors
   C) customers
   D) company managers
   Answer: D

5. Which of the following is an external user of business financial information?
   A) customers
   B) cost accountant
   C) company manager
   D) the board of directors
   Answer: A

6. Professional accountants who serve the general public, not one particular company are:
   A) Certified public accountants
   B) Certified management accountants
   C) Cost accountants
   D) Controllers
   Answer: A

7. Which of the following organizations is responsible for the creation and governance of accounting standards in the United States?
   A) Financial Accounting Standards Board
   B) Institute of Management Accountants
   C) American Institute of Certified Public Accountants
   D) Securities and Exchange Commission
   Answer: A
8) GAAP refer to the rules that govern accounting in the United States. The acronym GAAP in this statement refers to:

A) Globally Accepted and Accurate Policies.
B) Global Accommodation Accounting Principles.
C) Generally Accredited Accounting Policies.
D) Generally Accepted Accounting Principles.
Answer: D

9) According to the going concern assumption, an asset should be recorded at the amount actually paid rather than at its estimated current value.

A) going concern assumption
B) economic entity concept
C) cost principle
D) monetary unit assumption
Answer: C

10) As per the economic entity concept, the entity will remain in operation for the foreseeable future.

A) economic entity concept
B) monetary unit assumption
C) going concern assumption
D) cost principle
Answer: C

11) Joshua Thomas is the owner of Nexus Inc., a manufacturer and retailer of computer hardware. Joshua recently bought a new car as a gift for his daughter. Since Joshua paid for the car from the earnings of the business, he recorded it in the books of Nexus as an asset. Which of the following concepts or principles of accounting is Joshua violating?

A) monetary unit assumption
B) economic entity assumption
C) cost principle
D) going concern assumption
Answer: B

12) A business collects $5,000 from its customer, which was owed from a previous month. How does this affect the accounting equation of the business?

A) Assets increase by $5,000; liabilities decrease by $5,000.
B) Assets increase by $5,000; assets decrease by $5,000.
C) Assets increase by $5,000; liabilities increase by $5,000.
D) Assets increase by $5,000; equity increases by $5,000.
Answer: B

13) The total assets and the total liabilities of Samantha Financial Services are shown below. There were no capital contributions and withdrawals during the year.

<table>
<thead>
<tr>
<th></th>
<th>Beginning of year</th>
<th>End of year</th>
</tr>
</thead>
<tbody>
<tr>
<td>Assets</td>
<td>$425,000</td>
<td>$500,000</td>
</tr>
<tr>
<td>Liabilities</td>
<td>$280,000</td>
<td>$325,000</td>
</tr>
</tbody>
</table>

What was the amount of net income for the year?

A) $75,000
B) $45,000
C) $30,000
D) $120,000
Answer: C
Following is an extract of account balances of Wilson Mowing Service as of December 31 of the first year of operation:

<table>
<thead>
<tr>
<th>Account</th>
<th>Balance</th>
</tr>
</thead>
<tbody>
<tr>
<td>Accounts receivable</td>
<td>$5,000</td>
</tr>
<tr>
<td>Accounts payable</td>
<td>4,000</td>
</tr>
<tr>
<td>Salary expense</td>
<td>5,000</td>
</tr>
<tr>
<td>Repairs expense</td>
<td>1,000</td>
</tr>
<tr>
<td>Truck</td>
<td>10,000</td>
</tr>
<tr>
<td>Equipment</td>
<td>8,000</td>
</tr>
<tr>
<td>Notes payable</td>
<td>8,200</td>
</tr>
<tr>
<td>Cash</td>
<td>7,500</td>
</tr>
<tr>
<td>Supplies expense</td>
<td>1,600</td>
</tr>
<tr>
<td>Service revenue</td>
<td>32,000</td>
</tr>
<tr>
<td>Gasoline expense</td>
<td>3,800</td>
</tr>
<tr>
<td>Salary payable</td>
<td>200</td>
</tr>
</tbody>
</table>

14) At the end of the year, what is the amount of total assets?
A) $15,000
B) $30,500
C) $18,000
D) $25,500
Answer: B

15) At the end of the year, what is the amount of total liabilities?
A) $12,400
B) $24,100
C) $21,200
D) $12,200
Answer: A

16) Calculate the net income.
A) $20,600
B) $11,900
C) $12,200
D) $24,100
Answer: A

17) The amount of net income is transferred from:
A) the income statement; the statement of owner's equity
B) the balance sheet; the statement of cash flow
C) the balance sheet; the income statement
D) the income statement; the statement of expenditures
Answer: A

18) Which of the following financial statements reports that total assets are equal to total liabilities plus total owner's equity?
A) statement of owner's equity
B) statement of cash flows
C) income statement
D) balance sheet
Answer: D
19. A business settles a liability by making a payment in cash. How does paying this liability affect the accounting equation of the business?

A) Assets decrease; liabilities decrease.
B) Liabilities decrease; equity increases.
C) Assets increase; liabilities increase.
D) Assets increase; equity decreases.

Answer: A

20. A business receives a bill from one of its suppliers for services received. The business will pay the supplier next month. How does the receipt of the bill from the supplier affect the accounting equation of the business?

A) Assets decrease; equity decrease.
B) Liabilities increase; equity decrease.
C) Assets increase; liabilities increase.
D) Liabilities increase; equity increase.

Answer: B
Chapter 2

1) Which of the following is a liability account?
   A) Service Revenue
   B) Building
   C) Accounts Receivable
   D) Unearned Revenue
   Answer: D

2) An amount owed but not paid is called a(n):
   A) prepaid expense.
   B) adjusted liability.
   C) accrued liability.
   D) note receivable.
   Answer: C

3) Which type of account is Owner's Capital?
   A) equity
   B) asset
   C) liability
   D) revenue
   Answer: A

4) Which of the following accounts decreases with a debit?
   A) Accounts Receivable
   B) Notes Payable
   C) Cash
   D) Land
   Answer: B

5) Which of the following groups of accounts normally have a credit balance?
   A) assets and liabilities
   B) capital and assets
   C) liabilities and owner's equity
   D) assets and expenses
   Answer: C

6) Which of the following groups of accounts normally have a debit balance?
   A) assets and expenses
   B) revenues and expenses
   C) liabilities and owner's equity
   D) assets and liabilities
   Answer: A

7) After initially recording a transaction, the data is then transferred to the:
   A) chart of accounts.
   B) ledger.
   C) trial balance.
   D) journal.
   Answer: B
8) The accounting process of transferring a transaction from the journal to the ledger is called: 
A) journalizing. 
B) posting. 
C) compounding. 
D) sourcing. 
Answer: B

9) A business purchased $3,500 of office supplies for cash. Which of the following sets of ledger accounts reflect the posting of this transaction? 

A) 
Office Supplies 3,500  
Accounts Payable 3,500
B) 
Office Supplies 3,500  
Cash 3,500
C) 
Office Supplies 3,500  
Accounts Payable 3,500
D) 
Office Supplies 3,500  
Cash 3,500

Answer: D

10) Sandra invested $40,000 in her new business by depositing the cash in the business's bank account. Which of the following accounts will be debited? 
A) Accounts Receivable 
B) Cash 
C) Sandra, Capital 
D) Accounts Payable 
Answer: B

11) A business borrows cash by signing a note payable. Which of the following accounts will be debited? 
A) Notes Payable 
B) Accounts Payable 
C) Bank 
D) Cash 
Answer: D

12) The following transactions for the month of March have been journalized and posted to the proper accounts:

Mar. 1: Martinez invested $9,000 in cash in his new design services business.  
Mar. 2: Paid the first month's rent of $800.  
Mar. 3: Purchased equipment by paying $3,000 in cash and executing a note payable for $5,000.  
Mar. 4: Purchased office supplies for $750 in cash.  
Mar. 5: Billed a client for $10,000 of design services completed.  
Mar. 6: Received $8,000 on account for the services previously recorded.

What is the balance in Cash? 
A) $13,250 
B) $12,450 
C) $15,450 
D) $14,000 
Answer: B
13. The following are the current month's balances for Toys Galore, before preparing the trial balance:

<table>
<thead>
<tr>
<th>Accounts Payable</th>
<th>$8,000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenue</td>
<td>$10,000</td>
</tr>
<tr>
<td>Cash</td>
<td>$5,000</td>
</tr>
<tr>
<td>Expenses</td>
<td>$1,750</td>
</tr>
<tr>
<td>Furniture</td>
<td>$12,000</td>
</tr>
<tr>
<td>Accounts Receivable</td>
<td>$14,000</td>
</tr>
<tr>
<td>Jones, Capital</td>
<td>??</td>
</tr>
<tr>
<td>Notes Payable</td>
<td>$6,500</td>
</tr>
</tbody>
</table>

\[ A = L + E \]
\[ 31,000 = 14,500 + E \]
\[ E = 16,500 \]

What amount should be shown for Jones, Capital on the trial balance?
A) $16,500  
B) $8,250  
C) $14,500  
D) $31,000  
Answer: B

14. The owner of a business withdrew cash for personal use. Which of the following accounts will be credited?
A) Smith, Capital  
B) Smith, Withdrawals  
C) Cash  
D) Accounts Payable  
Answer: C

15. Which of the following journal entries would be recorded if Christy Jones started a business and deposited cash of $5,000 into the business's bank account?

<table>
<thead>
<tr>
<th>A)</th>
<th>Cash</th>
<th>3,000</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Christy Jones, Capital</td>
<td>3,000</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>B)</th>
<th>Accounts Payable</th>
<th>3,000</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Cash</td>
<td>3,000</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>C)</th>
<th>Christy Jones, Capital</th>
<th>3,000</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Cash</td>
<td>3,000</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>D)</th>
<th>Christy Jones, Capital</th>
<th>3,000</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Accounts Payable</td>
<td>3,000</td>
</tr>
</tbody>
</table>

Answer: A
Chapter 3

1. The entry to record depreciation includes a credit to:
   A) the Depreciation Payable account.
   B) the Cash account.
   C) the Accumulated Depreciation account.
   D) the Depreciation Expense account.
   Answer: C

2. A depreciable asset’s cost minus accumulated depreciation is called:
   A) book value.
   B) residual value.
   C) accrued revenue.
   D) accrued expense.
   Answer: A

3. The liability created when a business collects cash from customers in advance of completing a service or delivering a product is called:
   A) accrued revenue.
   B) accrued expense.
   C) unearned revenue.
   D) prepaid expense.
   Answer: C

4. Accrued revenue is revenue that:
   A) has been collected and earned.
   B) the business has collected in cash, but not yet earned.
   C) the business has earned, but not yet collected in cash.
   D) will be collected and earned in the future.
   Answer: C

5. An adjusting entry that credits Salaries Payable is an example of a(n):
   A) accrued expense.
   B) unearned revenue.
   C) accrued revenue.
   D) prepaid expense.
   Answer: A

6. The advance cash payments of future expenses are called:
   A) accrued revenues.
   B) prepaid expenses.
   C) unearned revenues.
   D) accrued expenses.
   Answer: B

6. On January 1, 2015, the Accounts Receivable of Linda Company had a debit balance of $20,000. During January, the company provided services for $600,000 on account. The company collected $250,000 from its customers on account in January. What was the ending balance in the Accounts Receivable account at the end of January?
   A) $350,000
   B) $520,000
   C) $370,000
   D) $600,000
   Answer: C
7) Owerty Inc. prepaid $3,600 on November 1, 2014, for a one-year insurance premium. On January 1, 2015, of the next year (after December 31, adjustments), the Prepaid Insurance account will have a debit balance of:

\[ 3600 - 600 = 3000 \]

A) $3,300.
B) $3,900.
C) $3,600.
D) $3,000.

Answer: D

8) On December 31, 2014, the balance in Pinnacle Exploration Company's Unearned Revenue account was a credit of $50,000. In January 2015, the company received an advance payment of $14,000 from a new customer for services to be performed by January 31. Adjustments had been made to recognize $7,000 of the revenue which had been earned during January. What was the balance in Unearned Revenue on January 31, 2015?

A) $7,000 credit.
B) $14,000 debit.
C) $8,000 credit.
D) $15,000 credit.

Answer: D

9) Hank's Tax Planning Service started business in January, 2014. He rented an office for $1,800 a month starting January 1. On January 1, he paid the rental for the month of January. He makes accrual adjustments monthly. What is the balance in the Prepaid Rent account as of April 30?

A) $3,600
B) $300
C) $1,800
D) $900

Answer: A

10) Financial statements are prepared from the balances in a(n):

A) general journal.
B) chart of accounts.
C) unadjusted trial balance.
D) adjusted trial balance.

Answer: D

11) Unearned Revenue is a(n) account and carries a normal balance:

A) liability; credit
B) asset; credit
C) revenue; debit
D) asset; debit

Answer: A

12) What type of account is Prepaid Rent and what is its normal balance?

A) expense and debit
B) liability and credit
C) revenue and credit
D) asset and debit

Answer: D
13) An adjusting entry that credits Salaries Payable is an example of a(n):
A) accrued expense.
B) unearned revenue.
C) accrued revenue.
D) prepaid expense.
Answer: A

14) An adjusting entry that debits Accounts Receivable is an example of a(n):
A) prepaid expense.
B) accrued revenue.
C) accrued expense.
D) unearned revenue.
Answer: B

15) Which of the following is a contra account?
A) Depreciation Expense
B) Accumulated Depreciation
C) Unearned Revenue
D) Earned Revenue
Answer: B
Chapter 4

4. Under which of the following categories would accounts receivable appear?
   A) Current assets
   B) Current liabilities
   C) Long-term assets
   D) Long-term liabilities
   Answer: A

2. Under which of the following categories would bonds issued as investments for more than a year appear?
   A) Long-term assets
   B) Current assets
   C) Long-term liabilities
   D) Current liabilities
   Answer: A

3. Under which of the following categories would accounts payable appear?
   A) Long-term assets
   B) Current assets
   C) Long-term liabilities
   D) Current liabilities
   Answer: D

4. Which of the following is a plant asset?
   A) Equipment
   B) Patents
   C) Trademark
   D) Accounts Receivable
   Answer: A

5. The notes payable that are due within two years are classified as:
   A) current liabilities.
   B) current assets.
   C) long-term liabilities.
   D) long-term assets.
   Answer: C

6. The assets which do not have a physical form are called:
   A) current assets.
   B) intangible assets.
   C) long-term investments.
   D) mortgaged investments.
   Answer: B

7. Which of the following is an example of an intangible asset?
   A) Equipment
   B) Plant
   C) Property
   D) Copyright
   Answer: D
8) A balance sheet that lists the assets above the liabilities and owner's equity sections is a(a)___________.
   A) report form balance sheet.
   B) unclassified form balance sheet.
   C) account form balance sheet.
   D) audited form balance sheet.
   Answer: A

9) Buildings, land, and equipment are classified as:
   A) current assets.
   B) long-term assets.
   C) current liabilities.
   D) long-term liabilities.
   Answer: B

10) Which of the following would be considered a long-term asset?
    A) Accounts Payable
    B) Land
    C) Cash
    D) Owner's Name, Capital
    Answer: B

11) Which of the following accounts should the balance in the income summary account be closed?
    A) Owner's Name, Withdrawals
    B) Net Income
    C) Owner's Name, Capital
    D) Service Revenue
    Answer: C

12) Which of the following accounts will have an ending balance after the closing process is completed?
    A) Owner's Name, Withdrawals
    B) Rent Expense
    C) Accumulated Depreciation—Furniture
    D) Service Revenue
    Answer: C

13) The Net Income of Sarah for the year is $25,000. The withdrawals Sarah made during the year amounted to $30,000.
    Which of the following statements is true of these transactions on Sarah's Capital?
    A) Sarah, Capital account decreases by $25,000.
    B) Sarah, Capital account decreases by $5,000.
    C) Sarah, Capital account increases by $30,000.
    D) Sarah, Capital account increases by $25,000.
    Answer: B

14) Which of the following entries will be necessary to close the Insurance Expense account at the end of the year?
    A) Debit Insurance Expense and credit Income Summary
    B) Debit Insurance Expense and credit Owner's Name, Capital
    C) Debit Owner's Name, Capital and credit Insurance Expense
    D) Debit Income Summary and credit Insurance Expense
    Answer: D
15) Which of the following accounts will be included in a post-closing trial balance?
A) Owner's Name, Withdrawals
B) Salaries Expense
C) Owner's Name, Capital
D) Office Supplies Expense

Answer: C
Chapter 5

1) A company sold merchandise worth $221 for $350 on account. The seller uses the perpetual inventory system. The entry to record the cost of merchandise sold would include:

A) a debit to Sales and a credit to Cash for $350.
B) a debit to Cash and a credit to Sales for $350.
C) a debit to Cost of Goods Sold and a credit to Merchandise Inventory for $221.
D) a debit to Merchandise Inventory for $221 and a credit to Cost of Goods Sold for $221.

Answer: C

2) Under the perpetual inventory system, what is the difference between a sales return and a sales allowance?

A) A sales return reduces the amount receivable from the customer, but an allowance does not.
B) A sales return involves an adjustment to Merchandise Inventory, but a sales allowance does not.
C) A sales return requires a debit to Sales Returns and Allowances, but a sales allowance does not.
D) A sales allowance is deducted from Sales revenue to calculate net sales, but a sales return is not.

Answer: B

3) A company sold merchandise for $20,000 on account with terms of 3/10, n/30. The company uses a perpetual inventory system. After two days, it received defective merchandise worth $2,000. The journal entry to record the cash receipt for said merchandise would include:

A) a debit to Cash for $17,460, a credit to Merchandise Inventory for $540, and a credit to Sales Revenue for $18,000.
B) a debit to Cash for $17,460, a debit to Sales Discount for $540, and a credit to Accounts Receivable for $18,000.
C) a debit to Cash for $18,000, a debit to Merchandise Inventory for $2,000 and a credit to Accounts Receivable.
D) a debit to Sales for $20,000, a credit to Accounts Receivable for $20,000, and a credit to Sales Discount for $2,000.

Answer: B

From the following details:

<table>
<thead>
<tr>
<th>Sales revenue</th>
<th>$460,000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cost of goods sold</td>
<td>300,000</td>
</tr>
<tr>
<td>Operating expenses</td>
<td>85,000</td>
</tr>
<tr>
<td>Sales discounts</td>
<td>20,000</td>
</tr>
<tr>
<td>Sales returns and allowances</td>
<td>15,000</td>
</tr>
<tr>
<td>Interest revenue</td>
<td>5,000</td>
</tr>
</tbody>
</table>

4) Calculate net sales revenue:

A) $400,000
B) $415,000
C) $425,000
D) $455,000

Answer: C

5) Calculate Gross Profit:

A) $90,000
B) $125,000
C) $140,000
D) $160,000

Answer: B
6. Gross profit is calculated as:
A) sales revenue less sales discounts and allowances.
B) sales revenue less operating expenses.
C) net sales revenue less sales discounts.
D) net sales revenue less cost of goods sold.
Answer: D

7. Direct expenses are:
A) administrative expense.
B) factory expense.
C) operating expense.
D) overhead expense.
Answer: C

8. The general ledger shows a balance of $67,900 in the Merchandise Inventory account at the end of the period. The physical inventory count shows inventory of $65,300. The adjusting entry includes a:
A) debit to Cost of Goods Sold and a credit to Merchandise Inventory for $2,600.
B) debit to Cost of Goods Sold and a credit to Cash for $2,600.
C) debit to Merchandise Inventory and a credit to Cost of Goods Sold for $2,600.
D) debit to Merchandise Inventory and a credit to Cash for $2,600.
Answer: A

9. Sales revenue of a merchandiser amounted to $20,000, sales returns and allowances amounted to $2,500, and sales discounts amounted to $500. The merchandiser uses a perpetual inventory system. The first entry in the closing process would include:
A) a credit to Income Summary for $20,000.
B) a credit to Income Summary for $17,500.
C) a debit to Income Summary for $2,500.
D) a debit to Income Summary for $19,300.
Answer: A

10. A merchandiser had sales revenue of $10,000, cost of goods sold of $12,000, and all other expenses of $5,500. The merchandiser uses a perpetual inventory system. The second entry in the closing process would include:
A) a debit to Income Summary for $17,500.
B) a credit to Income Summary for $16,500.
C) a debit to Income Summary for $4,500.
D) a debit to Income Summary for $16,500.
Answer: A

11. In which of the financial statements do Merchandise Inventory and Cost of Goods Sold appear?
A) on the balance sheet and statement of owner's equity, respectively.
B) on the statement of owner's equity and income statement, respectively.
C) on the balance sheet and income statement, respectively.
D) on the income statement and statement of cash flows, respectively.
Answer: C
12. Which of the following is added to operating income to arrive at net income?
   A) sales revenue
   B) cost of goods sold
   C) interest revenue
   D) operating expenses
   Answer: C

13. On a multi-step income statement, which of the following is subtracted from net sales revenue to arrive at gross profit?
   A) cost of goods available for sale
   B) cost of goods sold
   C) sales discounts and Sales returns and allowances
   D) operating expenses
   Answer: B

14. On a merchandising balance sheet, Merchandise Inventory is listed as a(n)
   A) current asset.
   B) current liability.
   C) expense.
   D) revenue.
   Answer: A

15. A merchandiser uses a perpetual inventory system. The third step in the process of closing the accounts of a merchandiser is to:
   A) make the revenue accounts equal to zero via the Income Summary account.
   B) make the Income Summary account equal to zero via the Owner's Name, Withdrawals account.
   C) make the expense accounts equal to zero via the Income Summary account.
   D) make the Income Summary account equal to zero via the Owners' Name, Capital account.
   Answer: D
Chapter 6

1) Which of the following states that a company must perform strictly proper accounting only for items that are significant to the business's financial statements?
   A) accounting conservatism
   B) materiality concept
   C) disclosure principle
   D) consistency principle
   Answer: B

2) Changing from the LIFO (Last-In, First-Out) to the specific identification method of valuing inventory ignores the principle of:
   A) conservatism
   B) consistency
   C) disclosure
   D) materiality
   Answer: B

3) Which of the following principles states that a business's financial statements must report enough information for outsiders to make knowledgeable decisions about the company?
   A) accounting conservatism
   B) materiality concept
   C) disclosure principle
   D) consistency principle
   Answer: C

4) The tracking of inventory shrinkage due to theft or damage is not done with the help of:
   A) authorization
   B) sale
   C) physical count
   D) delivery
   Answer: C

5) A company purchased 100 units for $20 each on January 31. It purchased 100 units for $30 on February 28. It sold a total of 150 units for $45 each from March 1 through December 31. What is the amount of ending inventory on December 31 if the company uses the first-in, first-out (FIFO) inventory costing method? (Assume that the company uses a perpetual inventory system)
   A) $1,500
   B) $1,250
   C) $1,000
   D) $4,250
   Answer: A

6) A company purchased 100 units for $30 each on January 31. It purchased 200 units for $25 on February 28. It sold a total of 150 units for $50 each from March 1 through December 31. If the company uses the weighted-average inventory costing method, calculate the amount of ending inventory on December 31. (Assume that the company uses a perpetual inventory system)
   A) $6,750
   B) $2,700
   C) $1,350
   D) $2,900
   Answer: B
7) A company purchased 100 units for $20 each on January 31. It purchased 100 units for $30 on February 28. It sold a total of 150 units for $45 each from March 1 through December 31. If the company uses the last-in, first-out inventory costing method, calculate the amount of ending inventory on December 31. (Assume that the company uses a perpetual inventory system.)

A) $1,500  
B) $1,250  
C) $1,000  
D) $2,250  
Answer: C

8) Which of the following inventory costing methods yields the highest net income during a period of rising inventory costs?

A) Specific identification  
B) Weighted-average  
C) First-in, first-out  
D) Last-in, first-out  
Answer: D

9) Which of the following inventory costing methods yields the lowest net income during a period of rising inventory costs?

A) Specific identification  
B) Weighted-average  
C) First-in, first-out  
D) Last-in, first-out  
Answer: C

10) Which of the following inventory valuation methods minimizes income tax payment during a period of rising inventory costs?

A) First-in, first-out  
B) Last-in, first-out  
C) Weighted-average  
D) Specific identification  
Answer: B

11) Which of the following inventory valuation methods should be used for unique or high dollar items?

A) First-in, first-out  
B) Last-in, first-out  
C) Weighted-average  
D) Specific identification  
Answer: D

12) When a company uses the perpetual inventory method, which of the following would be the entry to adjust inventory to lower of cost or market?

A) Debit Purchases and credit Merchandise Inventory  
B) Debit Inventory and credit Purchases  
C) Debit Cost of Goods Sold and credit Merchandise Inventory  
D) Debit Inventory and credit Cost of Goods Sold  
Answer: C
13) Sandra Company had 200 units of inventory on hand at the end of the year. These were recorded at a cost of $12 each using the last-in, first-out (LIFO) method. The current replacement cost is $10 per unit. The selling price charged by Sandra Company for each finished product is $15. In order to record the adjusting entry needed under the lower-of-cost-or-market method, the merchandise inventory will be:

A) debited by $2,000.
B) credited by $2,000.
C) debited by $400.
D) credited by $400.

Answer: D

14) The ending merchandise inventory for the current accounting period is overstated by $3,500. What will be the effect of this error?

A) Net income for the current accounting period will be overstated by $3,500.
B) Cost of goods sold for the current accounting period will be overstated by $3,500.
C) Ending merchandise inventory for the next accounting period will be overstated by $3,500.
D) Cost of goods sold for the next accounting period will be understated by $3,500.

Answer: A

15) A company that uses the perpetual inventory system sold goods to a customer for cash for $3,000. The cost of the goods sold was $1,000. Which of the following journal entries correctly records this transaction?

A) 

<table>
<thead>
<tr>
<th>Cost of Goods Sold</th>
<th>3,000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sales Revenue</td>
<td>3,000</td>
</tr>
</tbody>
</table>

B) 

<table>
<thead>
<tr>
<th>Cash</th>
<th>3,000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sales Revenue</td>
<td>3,000</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Cost of Goods Sold</th>
<th>1,000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Merchandise Inventory</td>
<td>1,000</td>
</tr>
</tbody>
</table>

C) 

<table>
<thead>
<tr>
<th>Accounts Receivable</th>
<th>3,000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash</td>
<td>3,000</td>
</tr>
</tbody>
</table>

D) 

<table>
<thead>
<tr>
<th>Merchandise Inventory</th>
<th>3,000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sales Revenue</td>
<td>3,000</td>
</tr>
</tbody>
</table>

Answer: B
Chapter 8

1) Which of the following is one of the purposes of internal control?
   A) to encourage employees to follow company policy
   B) to ensure timely payment of Accounts Payables
   C) to ensure timely collection of Accounts Receivable
   D) to guarantee that a business makes a profit
   Answer: A

2) Which of the following describes the internal control procedure separation of duties?
   A) Cashiers must not have access to accounting records.
   B) External auditors will monitor internal controls.
   C) The information system is critical.
   D) The invoices and other documents must be pre-numbered.
   Answer: A

3) Rearranging plain-text messages by a mathematical process is known as:
   A) password.
   B) phishing.
   C) encryption.
   D) virus.
   Answer: C

4) A check was written by a business for $507, but was recorded in the cash payments journal as $705. How would this error be included on the bank reconciliation?
   A) a deduction on the bank side
   B) an addition on the book side
   C) an addition on the book side
   D) a deduction on the book side
   Answer: B

5) The bank recorded a $3,000 deposit as $300. How would this information be included on the bank reconciliation?
   A) a deduction on the book side
   B) a deduction on the book side
   C) an addition on the book side
   D) an addition on the bank side
   Answer: D

6) The bank made an EFT payment of a telephone bill of $9,000. How would this information be included on the bank reconciliation?
   A) an addition on the bank side
   B) a deduction on the book side
   C) an addition on the book side
   D) a deduction on the bank side
   Answer: B

7) A check of $900,000 deposited by a company was returned to the bank for insufficient funds. How would this information be included on the bank reconciliation?
   A) a deduction on the bank side
   B) an addition on the bank side
   C) an addition on the book side
   D) a deduction on the book side
   Answer: D
9. Check payment for $658 was incorrectly entered in the cash account as $656. Which adjustment needs to be made?
A) decrease the book balance
B) decrease the bank statement balance
C) increase the book balance
D) increase the bank statement balance
Answer: C

9. The bank charged a service fee of $55. How would this information be included on the bank reconciliation?
A) a deduction on the bank side
B) an addition on the book side
C) a deduction on the book side
D) an addition on the bank side
Answer: C

10. Which of the following items require an adjustment on the bank side of the bank reconciliation?
A) interest earned
B) a bank service charge
C) a note collected by the bank
D) deposits in transit
Answer: D

11. Which of the following is true of the bank reconciliation?
A) It should not be prepared by an employee who handles cash transactions.
B) It is prepared in place of the cash ledger.
C) It is a financial statement.
D) It guarantees that no errors have been made.
Answer: A

12. A check on which a maker's bank account has inadequate money to pay the check is known as:
A) a nonsufficient funds check.
B) an outstanding check.
C) a restrictive check.
D) a canceled check.
Answer: A

13. The following information is available for Jack's Unlimited Company for the current month:

<table>
<thead>
<tr>
<th>Book balance end of the month.</th>
<th>$6,875</th>
</tr>
</thead>
<tbody>
<tr>
<td>Outstanding checks</td>
<td>655</td>
</tr>
<tr>
<td>Deposits in transit</td>
<td>3,500</td>
</tr>
<tr>
<td>Service charges</td>
<td>85</td>
</tr>
<tr>
<td>Interest revenue</td>
<td>35</td>
</tr>
</tbody>
</table>

What is the adjusted book balance on the bank reconciliation?
A) $9,600
B) $7,480
C) $6,755
D) $6,825
Answer: D
13) A company's cash ledger shows an ending balance of $4,000. Reconciling items included: a bookkeeper error of $100 (a $500 check recorded as $600), two outstanding checks totaling $520, a service charge of $25, a deposit in transit of $280, and interest revenue of $31. What is the adjusted book balance?

A) $3,894
B) $3,460
C) $4,106
D) $4,540

Answer: C

14) Which of the following would be included in the journal to record an NSF check?

A) a debit to Accounts Payable and a credit to Cash
B) a debit to Accounts Receivable and a credit to Cash
C) a debit to Cash and a credit to Accounts Receivable
D) a debit to Bank Expense and a credit to Cash

Answer: B
1) Under the direct write-off method, which of the following is included in the entry to write off an uncollectible account?
A) a credit to the Allowance for Bad Debts
B) a credit to the customer's Account Receivable
C) a debit to Allowance for Uncollectible Accounts
D) No entry is made to write off uncollectible accounts.
Answer: B

2) On January 1, Davidson Services has the following balances:

<table>
<thead>
<tr>
<th>Accounts Receivable</th>
<th>Bal.</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>24,000</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Bad Debts Expense</th>
<th>Bal.</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>0</td>
</tr>
</tbody>
</table>

Davidson has the following transactions during January: Credit sales of $100,000, collections of credit sales of $85,000, and write-offs of $15,000. Davidson uses the direct write-off method. At the end of January, the balance in Accounts Receivable is:
A) $16,000.
B) $24,000.
C) $68,000.
D) $28,000.
Answer: B

3) Which of the following are two methods of estimating uncollectible receivables?
A) allowance method and amortization method
B) aging-of-accounts-receivable method and percent-of-sales method
C) gross-up method and direct write-off method
D) direct write-off method and percent-of-completion method
Answer: B

4) The entry to write off an account receivable under the allowance method will:
A) reduce net income.
B) have no effect on net income.
C) increase total assets.
D) increase net income.
Answer: B

5) GAAP requires most companies to use the:
A) direct write-off method to evaluate bad debts.
B) allowance method to evaluate bad debts.
C) amortization method to evaluate bad debts.
D) 360-day method to evaluate bad debts.
Answer: B
### 6) The following information is from the records of Armadillo Camera Shop:

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Accounts receivable, December 31, 2015</td>
<td>$20,000 (debit)</td>
</tr>
<tr>
<td>Allowance for Bad Debts, December 31, 2015</td>
<td></td>
</tr>
<tr>
<td>prior to adjustment</td>
<td>600 (debit)</td>
</tr>
<tr>
<td>Net credit sales for 2015</td>
<td>95,000</td>
</tr>
<tr>
<td>Accounts written off as uncollectible during 2015</td>
<td>350</td>
</tr>
</tbody>
</table>

Bad debts expense is estimated by the aging-of-receivables method. Management estimates that $2,850 of accounts receivable will be uncollectible. Calculate the amount of net accounts receivable after the adjustment for bad debts.

A) $17,750  
B) $17,150  
C) $16,550  
D) $13,000  
Answer: B

### 7) The following information is from the 2015 records of Armadillo Camera Shop:

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Accounts Receivable, December 31, 2015</td>
<td>$40,000 (debit)</td>
</tr>
<tr>
<td>Allowance for Bad Debts, December 31, 2015</td>
<td></td>
</tr>
<tr>
<td>prior to adjustment</td>
<td>1,500 (debit)</td>
</tr>
<tr>
<td>Net credit sales for 2015</td>
<td>175,000</td>
</tr>
<tr>
<td>Accounts written off as uncollectible during 2015</td>
<td>15,000</td>
</tr>
<tr>
<td>Cash sales during 2015</td>
<td>27,000</td>
</tr>
</tbody>
</table>

Bad debts expense is estimated by the percent-of-sales method. The management estimates that 3% of net credit sales will be uncollectible. Calculate the amount of bad debts expense for 2015.

A) $5,250  
B) $3,450  
C) $2,250  
D) $2,850  
Answer: A

### 8) The following information is from the 2015 records of Armadillo Camera Shop:

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Accounts Receivable, December 31, 2015</td>
<td>$40,000 (debit)</td>
</tr>
<tr>
<td>Allowance for Bad Debts, December 31, 2015</td>
<td></td>
</tr>
<tr>
<td>prior to adjustment</td>
<td>1,500 (debit)</td>
</tr>
<tr>
<td>Net credit sales for 2015</td>
<td>175,000</td>
</tr>
<tr>
<td>Accounts written off as uncollectible during 2015</td>
<td>15,000</td>
</tr>
<tr>
<td>Cash sales during 2015</td>
<td>27,000</td>
</tr>
</tbody>
</table>

Bad debts expense is estimated by the aging-of-receivables method. Management estimates that $5,000 of accounts receivable will be uncollectible. Calculate the amount of bad debts expense for 2015.

A) $7,000  
B) $6,500  
C) $6,450  
D) $5,250  
Answer: B
9) The following information is from the 2015 records of Armand Camera Shop:

<table>
<thead>
<tr>
<th>Accounts Receivable, December 31, 2015</th>
<th>$40,000 (debit)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Allowance for Bad Debts, December 31, 2015</td>
<td>Prior to adjustment 1,500 (debit)</td>
</tr>
<tr>
<td>Net credit sales for 2015</td>
<td>175,000</td>
</tr>
<tr>
<td>Accounts written off as uncollectible during 2015</td>
<td>15,000</td>
</tr>
<tr>
<td>Cash sales during 2015</td>
<td>27,000</td>
</tr>
</tbody>
</table>

Bad debts expense is estimated by the percent-of-sales method. Management estimates that 3% of net credit sales will be uncollectible. The balance of the Allowance for Bad Debts after adjustment will be:

A) $7,000.
B) $3,450.
C) $2,880.
D) $3,750.

Answer: D

10) The following information is from the 2015 records of Armand Camera Shop:

<table>
<thead>
<tr>
<th>Accounts Receivable, December 31, 2015</th>
<th>$40,000 (debit)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Allowance for Bad Debts, December 31, 2015</td>
<td>Prior to adjustment 1,500 (debit)</td>
</tr>
<tr>
<td>Net credit sales for 2015</td>
<td>175,000</td>
</tr>
<tr>
<td>Accounts written off as uncollectible during 2015</td>
<td>15,000</td>
</tr>
<tr>
<td>Cash sales during 2015</td>
<td>27,000</td>
</tr>
</tbody>
</table>

Bad debts expense is estimated by the aging-of-receivables method. Management estimates that $5,000 of accounts receivable will be uncollectible. Calculate the Allowance for Bad Debts after the adjustment for bad debt expense at December 31, 2015.

A) $5,250
B) $6,500
C) $7,000
D) $5,000

Answer: D

11) Smart Arts, a new establishment. During the first year, there were credit sales of $40,000 and collections of credit sales of $36,000. One account for $650 was written off. The company decided to use the percent-of-sales method to account for bad debts expense, and decided to use a factor of 0.5% for their year-end adjustment of bad debts expense. At the end of the year, what is the ending balance in Accounts Receivable?

A) $4,000
B) $3,600
C) $3,350
D) $3,200

Answer: C
12) Smart Art is a new establishment. During the first year, there were credit sales of $40,000 and collections of credit sales of $36,000. One account for $550 was written off. The company decided to use the percent of sales method to account for bad debt expense, and decided to use a factor of 2% for their year-end adjustment of bad debt expense. At the end of the year, the balance of bad debt expense would be:

A) $150.
B) $800.
C) $250.
D) $1,450.

Answer: B

13) A company issues a 60-day, 12% note for $15,000. What is the principal amount of the note?

A) $16,800
B) $15,000
C) $14,700
D) $15,300

Answer: B

14) Calculate the interest on a 90-day, 9% note for $36,000. (Use a 360-day year to compute interest.)

A) $720
B) $810
C) $880
D) $460

Answer: B

15) On October 1, 2015, Elys Jewellers accepted a 4-month, 12% note for $6,000 in settlement of an overdue account receivable. The company records its accounts at the year-end. Calculate and record the accrued interest on the note at December 31, 2015.

A) $180
B) $160
C) $240
D) $140

Answer: A

16) On April 4, 2015, Bannee Services has received a 6-month note for $10,000 at 8%. Calculate the amount of interest receivable at maturity.

A) $320
B) $460
C) $800
D) $400

Answer: D

17) On October 1, 2015, Android Inc. made a loan to one of its customers. The customer signed a 4-month note for $100,000 at 15%. How much interest revenue did the company record in the year 2016 for this note?

A) $2,150
B) $3,750
C) $1,250
D) $5,000

Answer: C
19) On December 1, 2015, Parsons Inc. sold machinery to a customer for $20,000. The customer could not pay at the time of sale, but agreed to pay 9 months later, and signed a 9-month note at 5% interest. How much interest revenue was earned during the year 2015?

A) $180  
B) $150  
C) $200  
D) $900

Answer: B

20) A six-month note receivable for $4,000 at 12%, dated September 1, 2015, has accrued interest revenue of $400 on December 31, 2015.

A) $480  
B) $240  
C) $160  
D) $80

Answer: C
1) Which of the following asset categories would include the cost of clearing land and removing unwanted buildings?
   A) land  
   B) buildings  
   C) land improvements  
   D) machinery and equipment  
   Answer: A

2) Hastings Company has purchased a group of assets for $15,000. The assets and their relative market values are listed below:

<table>
<thead>
<tr>
<th>Asset</th>
<th>Market Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Land</td>
<td>$6,500</td>
</tr>
<tr>
<td>Equipment</td>
<td>2,000</td>
</tr>
<tr>
<td>Building</td>
<td>9,000</td>
</tr>
<tr>
<td>Total</td>
<td>$17,500</td>
</tr>
</tbody>
</table>

Which of the following amounts would be debited to the Land account?
   A) $1,962  
   B) $5,571  
   C) $1,714  
   D) $7,714  
   Answer: B

3) Roberts Construction Group paid $5,000 for a plant asset that had a market value of $7,500. At which of the following amounts should the plant asset be recorded?
   A) $7,500  
   B) $2,500  
   C) $5,000  
   D) $10,000  
   Answer: C

4) A company purchased a used machine for $10,000. The machine required installation costs of $1,000 and insurance while in transit of $500. At which of the following amounts would the machine be recorded?
   A) $10,000  
   B) $11,000  
   C) $10,500  
   D) $11,500  
   Answer: D

5) An investment plans to develop a shopping center in the first quarter. They spent the following amounts:

<table>
<thead>
<tr>
<th>Description</th>
<th>Cost</th>
</tr>
</thead>
<tbody>
<tr>
<td>Acquisition of land</td>
<td>$15,000</td>
</tr>
<tr>
<td>Surveys and legal fees</td>
<td>600</td>
</tr>
<tr>
<td>Land clearing</td>
<td>200</td>
</tr>
<tr>
<td>Fencing</td>
<td>× 1,000</td>
</tr>
<tr>
<td>Install lighting and signage</td>
<td>× 860</td>
</tr>
</tbody>
</table>

What amount should be recorded as the cost of land in the books of the company?
   A) $16,800  
   B) $15,800  
   C) $16,660  
   D) $16,200  
   Answer: B
6) Which of the following depreciation methods allocates a varying amount of depreciation each year, based on an asset's usage?
A) the straight-line method
B) the annuity method
C) the units-of-production
D) the double-declining-balance
Answer: C

7) Which of the following depreciation methods writes off a higher amount of depreciation in earlier years than in later years?
A) the units-of-production
B) the straight-line
C) the double-declining-balance
D) the first-in, first-out
Answer: C

8) The expected cash value of an asset at the end of its useful life is known as:
A) book value.
B) residual value.
C) carrying value.
D) market value.
Answer: B

9) On January 1, 2015, Zade Manufacturing Company purchased a machine for $40,000,000. The company expects to use the machine for 24,000 hours over the next 8 years. The estimated salvage value of the machine at the end of the sixth year (residual value) is $40,000. The company used the machine for 8,000 hours in 2015, 3,000 hours in 2016, and 5,000 hours in 2017. Calculate the book value of the machine at the end of 2017 if the company uses the units-of-production method of depreciation.

A) $25,681,000
B) $17,777,778
C) $28,532,688
D) $24,352,951
Answer: A

10) Cost of an asset is $200,000 and its residual value is $100,000. Estimated useful life of the asset is four years. Calculate depreciation for the first year using the double-declining-balance method of depreciation.
A) $450,000
B) $500,000
C) $250,000
D) $225,000
Answer: B

11) On July 31, 2015, Colorful Printers purchased a printer for $50,000. It expects the printer to last for four years and have a residual value of $2,500. Compute the depreciation expense on the printer for the year ended December 31, 2015 using the straight-line method.
A) $50,000
B) $5,000
C) $12,500
D) $25,000
Answer: B
12. A company purchased a mine on January 1, 2015, for $500,000 and it is estimated to contain 30,000 tons of iron ore. There's no residual value. The company has extracted 2,500 tons of ore in 2015 and 3,800 tons of ore in 2016. What is depletion expense for 2016? (Do not round your intermediate calculations):

A) $33,333
B) $42,667
C) $63,333
D) $66,667
Answer: C

13. Which of the following is an expense resulting from declining in the utility of a natural resource?
A) depletion
B) amortization
C) depreciation
D) obsolescence
Answer: A

14. Which of the following is an intangible asset?
A) copyright
B) building
C) land
D) equipment
Answer: A

15. Which of the following items should be amortized?
A) natural resources
B) goodwill
C) patents, copyrights, trademarks
D) tangible property, plant, and equipment, other than land
Answer: C

16. Which of the following is an intangible asset?
A) plant and machinery
B) goodwill
C) building
D) land
Answer: B

17. The type of intangible asset related to the rights of original music and media is known as:
A) goodwill,
B) a trademark,
C) a copyright,
D) a patent.
Answer: C
Chapter 11

1) Which of the following is a characteristic of a current liability?
A) It is due within one year or one operating cycle, whichever is longer.
B) It is due within five years or five accounting periods, whichever is longer.
C) It is due within five years or five accounting periods, whichever is shorter.
D) It is due within one year or one operating cycle, whichever is shorter.
Answer: A

2) Revenue collected but not yet earned is recorded as:
A) Unearned Revenue.
B) Accrued Revenue.
C) Service Revenue.
D) Uncollected Revenue.
Answer: A

3) Where does unearned revenue to be earned in six months appear on the balance sheet?
A) under long-term investments
B) under current liabilities
C) under current assets
D) under long-term assets
Answer: B

4) A $30,000 thirty-month, 7% note payable was issued on December 1, 2015. What is the amount of accrued interest on December 31, 2015?

A) $175
B) $267
C) $133
D) $275

Answer: A

5) A $90,000 four-month, 6.5% note payable was issued on October 1, 2015. Which of the following would be included in the journal entry required on the note's maturity date by the borrower?
A) a credit to Note payable for $40,867
B) a credit to Cash for $40,000
C) a debit to Interest expense for $217
D) a debit to Interest payable for $217

Answer: C

6) Which of the following accounts will be credited by the borrower when a promissory note is issued?
A) Note Payable
B) Note Receivable
C) Interest Payable
D) Cash

Answer: A

7) At the maturity of a note payable, a borrower will pay:
A) the principal plus interest.
B) the principal amount only.
C) the interest amount only.
D) the principal minus interest.

Answer: A
8) Ben Inc. recently signed a $350,000, six-month note on August 22, 2013. The interest rate is 6.5%. How much total interest will be due on the note at maturity?

A) $9,479
B) $22,750
C) $11,375
D) $7,583

Answer: C

9) What is a pay amount stated at an hourly rate?

A) Salary
B) Wage
C) Commission
D) Bonus

Answer: B

10) The matching principle requires businesses to record Warranty Expense:

A) in the same period that the company records the revenue related to that warranty.
B) in the period prior to which the company records the revenue related to that warranty.
C) in the period after the related revenue is recorded.
D) in the contingent liabilities section of the balance sheet.

Answer: A