Acct 201.

Feder

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Spring 2016-2017

ACCT201

MCQ Comprehensive

Problems on Ch. 5+6+8+9+10+11

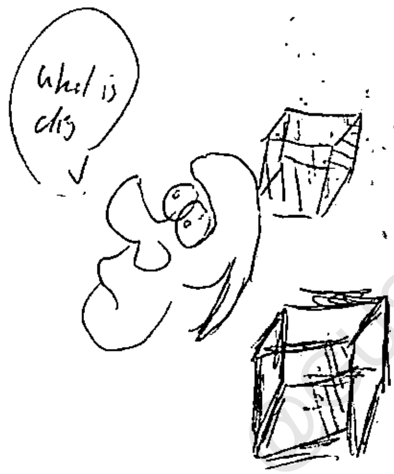

Exhibit 5-8 | Multi-Step Income Statement

SMART TOUCH LEARNING Income Statement Year Ended December 31, 2015		
Sales Revenue	$ 297,500	
Less: Sales Returns and Allowances	11,200	
Sales Discounts	5,600	
Net Sales Revenue		$ 280,700
Cost of Goods Sold		199,500
Gross Profit		81,200
Operating Expenses:		
Selling Expenses:		
Salaries Expense	8,100	
Rent Expense	7,300	
Advertising Expense	2,400	
Depreciation Expense	2,200	
Delivery Expense	1,600	
Total Selling Expenses	21,600	
Administrative Expenses:		
Utilities Expense	11,300	
Salaries Expense	6,900	
Insurance Expense	6,500	
Rent Expense	5,700	
Depreciation Expense	1,100	
Supplies Expense	600	
Total Administrative Expenses	32,100	
Total Operating Expenses		53,700
Operating Income		27,500
Other Revenues and (Expenses):		
Interest Expense	(2,300)	
Total Other Revenues and (Expenses)		(2,300)
Net Income		$ 25,200

Gross Profit

Operating Income

Other Revenues and (Expenses) and Net Income

S5-7

Requirement 1

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

Requirement 2

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

S5-8

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

Putter paradise carries an inventory of putters and other golf clubs. Putter's 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 Putter paradise putters:

Date	Item	Quantity	Unit Cost
Sep 1	Balance	4	$63
6	Sale	2	
8	Purchase	8	$74
17	Sale	4	
29	Purchase	2	$75
30	Sale	2	

Requirements

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

Date	Purchases	COGS	Balance
Beg			4*$63 = $252
Sept, 6		2*$63 = $126	2*$63 = $126
Sept, 8	8*$74 = $592		10*$71.8 = $718
Sept, 17		4*$71.8 = $287	6*$71.8 = $431
Sept, 29	2*$75 = $150		8*$72.65 = $581
Sept, 30		2*$72.65 = $145	6*$72.65 = $436
Total	10 $742	8 $558	6 $456

	Account	Debit	Credit
Sept, 6	A/R or cash 2*$141	282	
	Sales Revenue		282
	COGS	126	
	Inventory		126
Sept, 8	Inventory	592	
	A/P or cash		592
Sept, 17	A/R or Cash 4*$141	564	
	Sales Revenue		564
	COGS	287	
	Inventory		287
Sept, 29	Inventory	150	
	A/P or cash		150
Sept, 30	A/R or cash 2*$141	282	
	Sales Revenue		282
	COGS	145	
	Inventory		145

End. Inventory	$436
Sales Revenue (8*$141)	$1,128
COGS	$558
Gross Profit ($1,128-$558)	$570

E6-21, cont.
Requirement 2

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

Calculations:

Date	Purchases			Cost of Goods Sold				Inventory on Hand			
	Quantity	Unit Cost	Total Cost	Quantity	Unit Cost	Total Cost		Quantity	Unit Cost	Total Cost	
Dec. 1								13 units	× $ 11	= $ 143	$ 143
8				9 units	× $ 11	= $ 99	$ 99	4 units	× $ 11	= $ 44	$ 44
14	17 units	× $ 13	= $ 221					4 units 17 units	× $ 11 × $ 13	= $ 44 = $ 221	$ 265
21				13 units	× $ 13	= $ 169	$ 169	4 units 4 units	× $ 11 × $ 13	= $ 44 = $ 52	$ 96
Totals	17 units		$ 221	22 units			$ 268	8 units			$ 96

Sales Revenue [(b)]	$ 440
Less: Cost of Goods Sold	268
Gross Profit	$ 172

[(b)] Calculated in Requirement 1.

P8-26A

Requirement 1

WINCHESTER HEALTHCARE Bank Reconciliation August 31, 2015					
BANK			**BOOK**		
Balance, August 31, 2015		$ 4,870	Balance, August 31, 2015		$ 2,900
ADD:			ADD:		
Deposit in transit	$ 350		EFT collection on account	$ 1,300	
Bank error	1,000	1,350	Dividend revenue	970	
		6,220	Interest revenue	80	2,350
LESS:					5,250
Outstanding checks					
Check No. 237	$ 50				
288	170				
291	520		LESS:		
294	580		NSF check #1	400	
295	50		NSF check #2	110	
296	140	1,510	Service charge	30	540
Adjusted bank balance, August 31, 2015		$ 4,710	Adjusted book balance, August 31, 2015		$ 4,710

Requirement 2

Date	Accounts and Explanation	Debit	Credit
Aug. 31	Cash	1,300	
	Accounts Receivable		1,300
	To record EFT collection on account		
Aug. 31	Cash	970	
	Dividend Revenue		970
	To record dividend revenue		
Aug. 31	Cash	80	
	Interest Revenue		80
	To record interest revenue		
Aug. 31	Accounts Receivable ($400 + $110)	510	
	Cash		510
	To record NSF checks		
Aug. 31	Bank Expense	30	
	Cash		30
	To record bank service charges incurred.		

Chapter 10

[illegible]

On January 1, 2011, Huda Company purchased in cash an equipment for $230,000. The equipment costs Huda $3,000 for transportation and $2,000 for installation, all of which were paid in cash. The estimated residual value is $25,000 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 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

Account	Debit	Credit
Equipment	235,000	
Cash		235,000

Req. 2

Double Declining Method			
	Depreciation Expense	Accumulated Depreciation	Book Value
Jan, 1, 2011			235,000
Dec, 31, 2011	94,000	94,000	141,000
Dec, 31, 2012	56,400	150,400	84,600
Dec, 31, 2013	33,840	184,240	50,760

Commented [R1]: Annual Dep. Exp = Book Value * 2/Useful life

Commented [R2]: Book value = cost - Accumulated Dep.

Req. 3

Account	Debit	Credit
Depreciation exp	94,000	
... Accumulated Depreciation		94,000
Depreciation exp	56,400	
... Accumulated Depreciation		56,400

S10-4

Requirement 1

a. Straight-line = (Cost – Residual value) / Useful life
= ($46,000,000 – $6,000,000) / 8 years
= **$5,000,000 per year**

b. Depreciation per unit = (Cost – Residual value) / Useful life in units
= ($46,000,000 – $6,000,000) / 5,000,000 miles
= $8 per mile

Units-of-production = Depreciation per unit × Current year usage
= $8 per mile × 1,300,000 miles
= $10,400,000 in year 1

= Depreciation per unit × Current year usage
= $8 per mile × 1,000,000 miles
= **$8,000,000 in year 2**

c. Double-declining-balance = (Cost – Accumulated depreciation) × 2 × (1 / Useful life)
= ($46,000,000 – $0) × 2 × (1/ 8 years)
= $11,500,000 in year 1

= (Cost – Accumulated depreciation) × 2 × (1 / Useful life)
= ($46,000,000 – $11,500,000) × 2 × (1/ 8 years)
= **$8,625,000 in year 2**

Requirement 2

	Straight-line	**Units-of-production**	**Double-declining-balance**
Depreciation Expense – year 1	$ 5,000,000	$ 10,400,000	$ 11,500,000
Depreciation Expense – year 1	5,000,000	8,000,000	8,625,000
Total Accumulated Depreciation	$ 10,000,000	$ 18,400,000	$ 20,125,000

S10-5

Straight-line = (Cost – Residual value) / Useful life × (Number of Months / 12)
= ($40,400 – $2,000) / 4 years × (5/12)
= **$4,000**

E10-18

Asset	Market Value	Percentage of Total Value	× Total Purchase Price	= Assigned Cost of Each Asset
Lot 1	$ 70,500	$70,500 / $470,000 = 15%	× $210,000	= $ 31,500
Lot 2	235,000	$235,000 / $470,000 = 50%	× $210,000	= 105,000
Lot 3	164,5000	$164,500 / $470,000 = 35%	× $210,000	= 73,500
Total	$ 470,000	100%		$ 210,000

Date	Accounts and Explanation	Debit	Credit
	Land—Lot 1	31,500	
	Land—Lot 2	105,000	
	Land—Lot 3	73,500	
	Cash		210,000
	To record purchase of lots for cash.		

E11-15

Date	Accounts and Explanation	Debit	Credit
2014			
May 1	Equipment	17,000	
	Notes Payable		17,000
	Purchased equipment in exchange for one year, 6% note.		
Dec. 31	Interest Expense ($17,000 × 0.06 × 8/12)	680	
	Interest Payable		680
	Accrued interest expense at year-end.		
2015			
May 1	Notes Payable	17,000	
	Interest Expense ($17,000 × 0.06 × 4/12)	340	
	Interest Payable	680	
	Cash		18,020
	Paid note and interest at maturity.		

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 a business' financial information?
A) customers
B) cost accountant
C) company manager
D) the board of directors
Answer: A

6) ______ are professional accountants who serve the general public, not one particular company.
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 are 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 ________, the acquired assets should be recorded at the amount actually paid rather than at the estimated market value.
A) going concern assumption
B) economic entity concept
C) cost principle
D) monetary unit assumption
Answer: C

10) As per the ________, 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 since 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.

	Assets	Liabilities	E = A - L
Beginning of year	$425,000	$280,000	145,000
End of year	500,000	325,000	175,000

What was the amount of net income for the year?
A) $75,000
B) $45,000
C) $30,000
D) $120,000
Answer: C

Beg E	145,000
+ NI	+ X →
− withdrawal	− 0
End E	175,000

Following is an extract of account balances of Wilson Mowing Service as of December 31 of the first year of operation:

Accounts receivable	$5,000	A
Accounts payable	4,000	L
Salary expense	5,000	E
Repairs expense	1,000	E
Truck	10,000	A
Equipment	8,000	A
Notes payable	8,200	L
Cash	7,500	A
Supplies expense	1,600	E
Service revenue	32,000	E
Gasoline expense	3,800	E
Salary payable	200	L

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

Rev. - Exp

17) The amount of net income is transferred from _____ to _____.
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?

Supplies ↑A
Cash ↓A

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 invests $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

Cash ↑A
Capital ↑E

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 cash in his new design services business. Cash ↑ Capital
Mar. 2 Paid the first month's rent of $800. Rent exp. Cash ↓
Mar. 3 Purchased equipment by paying $3,000 cash and executing a note payable for $5,000. Equipment Cash ↓ N/P
Mar. 4 Purchased office supplies for $750 cash. Supplies cash ↓
Mar. 5 Billed a client for $10,000 of design services completed. A/R Service Rev.
Mar. 6 Received $8,000 on account for the services previously recorded. Cash ↑ A/R

What is the balance in Cash?
A) $13,250
B) $12,450
C) $15,450
D) $14,000
Answer: B

Cash	
1 9,000	800 2
6 8,000	3000 3
	750 4

13) The following are the current month's balances for Toys Galore, before preparing the trial balance:

Accounts Payable	$8,000	L
Revenue	10,000	E
Cash	5,000	A
Expenses	1,750	E
Furniture	12,000	A
Accounts Receivable	14,000	A
Jones, Capital	???	
Notes Payable	6,500	L

A = L + E

31,000 = 14,500 + E

E = 16,500

Capital	x
− withdrawal	− 0
+ Rev	+ 10,000
− Exp	− 1,750
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 $3,000 into the business's bank account?

A)

Cash	3,000	
Christy Jones, Capital		3,000

B)

Accounts Payable	3,000	
Cash		3,000

C)

Christy Jones, Capital	3,000	
Cash		3,000

D)

Christy Jones, Capital	3,000	
Accounts Payable		3,000

Cash ↑A

Capital ↑E

Answer: A

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

5) 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) $620,000
C) $370,000
D) $600,000
Answer: C

A/R

Beg 20,000	
600.000	250,000

A/R 600,000
Service Rev. 600,000

7) Qwerty 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

Nov, 1 Prepaid Insurance 3600
Cash 3600

$3600 \times 2/12 \rightarrow 600$

Dec, 31 Insurance exp 600
Prepaid Insurance 600

8) On December 31, 2014, the balance in Pinnacle Exploration Company's Unearned Revenue account was a credit of $8,000. 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

Unearned Rev

7000	Beg 8,000
	14,000
	End 15,000

• cash 14000
unearned Rev 14000

• Unearned Rev 7000
Service Rev 7000

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 prepaid the rentals through June 30. 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

$1,800 \times 6$

• Prepaid Rent 10,800
cash 10,800

1800×4

• Rent exp
Prepaid Rent

10,800	7200
3600	

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 ________ 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

1) 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 held as investment 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(n):
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) To 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 effect of these transactions on Sarah, 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

Capital

		Beg	
Withdrawal	30,000	NI	25000
	↓ 5,000		

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

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

A/R 350
Sales 350
COGS 221
Inventory 221

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 sale if the payment is received within 10 days of the invoice date 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,

Sales revenue	$460,000
Cost of goods sold	300,000
Operating expenses	85,000
Sales discounts	20,000
Sales returns and allowances	15,000
Interest revenue	5,000

4)
calculate net sales revenue.
A) $400,000
B) $415,000
C) $425,000
D) $455,000
Answer: C

Sales
- Sales discount
- Sales returns & allowance

Net Sales

5)
Calculate Gross Profit
A) $90,000
B) $125,000
C) $140,000
D) $160,000
Answer: B

Net sales
- COGS

Gross Profit

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) Delivery expense is a(n):
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 of $700. 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

Sales Rev 20 000
Income Summary 20 000

10) A merchandiser had sales returns and allowances of $300, sales discounts of $700, cost of goods sold of $12,000, and all other expenses of $4,500. 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

Income Summary 17,500
Sales R&A 300
Sales discount 700
COGS 12000
Exp. 4,500

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

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, damage, or errors is done with the help of ________ of inventory.
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) \$2,250
Answer: A

50 × \$30

Purchases	COGS	Balance
100 × \$20 = \$2000		100 × \$20 = \$2000
100 × \$30 = \$3000		100 × \$20 = \$2000 100 × \$30 = \$3000
	150 [100 × \$20 50 × \$30	50 × \$30

6) A company purchased 100 units for \$30 each on January 31. It purchased 150 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) \$4,350
D) \$2,900
Answer: B

100 × \$27

Purchases	COGS	Balance
100 × \$30		100 × \$30 = \$3000
150 × \$25 = \$3,750		250 \$27 \$6,750

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 — 50 × $20
C) $1,000
D) $2,250
Answer: C

100 × $20
100 × $30

100 × $20

100 × $20
100 × $30

150 [100 × $30, 50 × $20]

50 × $20

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) Last-in, first-out
D) First-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) Last-in, first-out
D) First-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 rule, 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)

Cost of Goods Sold	3,000	
Sales Revenue		3,000

B)

Cash	3,000	
Sales Revenue		3,000

Cost of Goods Sold	1,000	
Merchandise Inventory		1,000

Cash

Sales Rev

COGS

Inventory

C)

Accounts Receivable	3,000	
Cash		3,000

D)

Merchandise Inventory	3,000	
Sales Revenue		3,000

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 bank side
D) a deduction on the book side
Answer: B

Book error
(507) ✓ (705) ✗
+ 198

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 bank side
B) a deduction on the book side
C) an addition on the book side
D) an addition on the bank side
Answer: D

Bank error
3000 ✓ 300 ✗
+ 2700

6) The bank made an EFT payment of a telephone bill of $5,000. 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 $300,000 deposited by a company, was returned to the bank for nonsufficient 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

8) Check payment for $658 was incorrectly entered in the cash account as $856. 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

Book error
(658) ✓ (856) ×
+198

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 for 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:

Book balance end of the month	✓ $6,875
Outstanding checks	655
Deposits in transit	3,500
Service charges	✓ − 85
Interest revenue	✓ + 35

What is the adjusted book balance on the bank reconciliation?
A) $9,600
B) $7,480
C) $6,755
D) $6,825
Answer: D

14) 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 $820, 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

4,000
+ 100
- 25
+ 31

Book error (500) (600)
+100

15) 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

Chapter 9

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:

Accounts Receivable		
Bal.	24,000	

Bad Debts Expense		
Bal.	0	

Bad Debt exp
A/R

A/R
Sales Rev

Cash
A/R

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

A/R		
Beg.	24000	85000
	100,000	15000
	24,000	

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:

Accounts receivable, December 31, 2015	$20,000 (debit)
Allowance for Bad Debts, December 31, 2015 prior to adjustment	600 (debit)
Net credit sales for 2015	95,000
Accounts written off as uncollectible during 2015	350

Target

Bad debts expense is estimated by the aging-of-accounts-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

A/R 20,000
− Allowance 2,850
Net A/R 17,150

Allowance
Beg 600 | X
End 2,250

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

Accounts Receivable, December 31, 2015	$40,000 (debit)
Allowance for Bad Debts, December 31, 2015 prior to adjustment	1,500 (debit)
Net credit sales for 2015	175,000
Accounts written off as uncollectible during 2015	15,000
Cash sales during 2015	27,000

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

3% × 175000

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

Accounts Receivable, December 31, 2015	$40,000 (debit)
Allowance for Bad Debts, December 31, 2015 prior to adjustment	1,500 (debit)
Net credit sales for 2015	175,000
Accounts written off as uncollectible during 2015	15,000
Cash sales during 2015	27,000

Target

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

Allowance
Beg 1,500 | X → 6,500
End 5000

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

Accounts Receivable, December 31, 2015	$40,000 (debit)
Allowance for Bad Debts, December 31, 2015 prior to adjustment	1,500 (debit)
Net credit sales for 2015	175,000
Accounts written off as uncollectible during 2015	15,000
Cash sales during 2015	27,000

Bad Debt exp 5,250
Allowance 5,250

3% * 175000

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) $2,850.
D) $3,750.
Answer: D

Allowance
Beg 1,500 | 5,250
3750

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

Accounts Receivable, December 31, 2015	$40,000 (debit)
Allowance for Bad Debts, December 31, 2015 prior to adjustment	1,500 (debit)
Net credit sales for 2015	175,000
Accounts written off as uncollectible during 2015	15,000
Cash sales during 2015	27,000

Target

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

Allowance
Beg 1,500 |
| End 5000

11) 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 $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 2% 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

A/R 40000
Sales 40,000

Cash 36000
A/R 36000

Allowance 650
A/R 650

A/R
40,000 | 36000
| 650
3,350

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 $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 2% for their year-end adjustment of bad debts expense. At the end of the year, the balance of bad debts expense would be:

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

Previous Q

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

36,000 · 9% · 90/360

15) On October 1, 2015, Ealys Jewellers accepted a 4-month, 12% note for $6,000 in settlement of an overdue account receivable. The company closes 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

Oct, 1 → Dec, 31
3

6,000 · 12% · 3/12

17) On April 1, 2015, Banne Services has received a 6-month note for $10,000 at 8%. Calculate the amount of interest receivable on maturity.

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

10,000 · 8% · 6/12

18) 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

Oct, 1 N/R 100,000
Cash 100,000

100,000 · 15% · 3/12

Dec, 31 Interest Receivable 3,750
Interest Rev 3,750

Jan 31 Cash 105,000

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 9% interest. How much interest revenue was earned during the year 2015?

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

Dec. 1 $\xrightarrow[1]{}$ Dec. 31

20,000 · 9% · 1/12

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

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

Sept. 1 $\xrightarrow[4]{}$ Dec. 31

4,000 · 12% · 4/12

Chapter 10

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:

Land	$6,500
Equipment	2,000
Building	9,000
	17,500

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

$\frac{6,500}{17,500} \times 15000$

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) Acer Investments plans to develop a shopping center. In the first quarter, they spent the following amounts:

Acquisition of land	$15,000
Surveys and legal fees	600
Land clearing	200
Fencing	× 1,000
Install lighting and signage	× 860

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 6 years. The estimated sale value of the machine at the end of the sixth year (Residual Value) is $40,000. The company used the machine for 3,600 hours in 2015 and 5,000 hours in 2016. Calculate book value of the machine at the end of 2016 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

$\frac{40,000,000 - 40,000}{24,000 \text{ hours}} = 1,665/\text{hour}$

Dep exp | Acc. Dep. | BV → cost - Acc Dep

① 1,665 * 3600 = 5,994,000 → 5,994,000

② 1,665 * 5000 = 8,325,000 → 14,319,000

40,000,000 - 14,319,000 = $\boxed{25,681,000}$

10) Cost of an asset is $1,000,000 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

$BV \cdot \frac{2}{UL}$

$1,000,000 * 2/4 =$

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 $2,000. 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

$\frac{50,000 - 2,000}{4} = 12,000/\text{year}$

12) Steel Rolling Company purchased a mine on January 1, 2015, for $500,000 and it is estimated to contain 30,000 tons of iron ore. There is 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) $63,667

Answer: C

$\frac{500{,}000 - 0}{30{,}000} = 16.67/\text{ton}$

2016 $16.67 \cdot 3{,}200 = 63{,}333$

13) Which of the following is an expense resulting from decline 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, three-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

Dec, 1 $\xrightarrow{}$ Dec, 31
1

30,000 * 7% * 1/12

5) A $40,000, 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

Jan 30

Oct, 1 Cash 40,000
N/P 40,000

Dec, 31 Int. exp 650
Int. payable 650

40,000 * 6.5% * 3/12

Jan 30 N/P 40,000
Int payable 650
867 Int exp. 217
Cash 40,86

40,000 * 6.5% * 4/12

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

350,000 × .65% · 6/12

9) ________ 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