

## **Test bank: Financial Accounting**

### ***Accounting Cycle: First stage, step 1-3***

#### **TRUE-FALSE STATEMENTS 1 to 18:**

1. Owners of business firms are the only people who need accounting information.
2. Management of a business enterprise is the major external user of information.
3. Accounting communicates financial information about a business enterprise to both internal and external users.
4. Accounting information is used only by external users with a financial interest in a business enterprise.
5. Financial statements are the major means of communicating accounting information to interested parties.
6. Bookkeeping and accounting are one and the same because the bookkeeping function includes the accounting process.
10. The study of accounting will be useful only if a student is interested in working for a profit oriented business firm.
7. Private accountants are accountants who are not employees of business enterprises.
8. The study of accounting is not useful for a business career unless your career objective is to become an accountant.
9. A working knowledge of accounting is not relevant to a lawyer or an architect.
10. Accountants rely on a fundamental business concept—ethical behavior—in reporting financial information.
11. The cost and fair market value of an asset are the same at the time of acquisition and in all subsequent periods.

12. A partnership must have more than one owner.
13. Owners' claims to total business assets take precedence over the claims of creditors because owners invest assets in the business and are liable for losses.
14. The basic accounting equation states that Assets = Liabilities.
15. The purchase of store equipment for cash reduces the owner's equity by an equal amount.
16. The purchase of office equipment on credit increases total assets and total liabilities.
17. Accountants do not have to worry about issues of ethics.
18. In the owner's equity statement, revenues are listed first, followed by expenses, and net income (or net loss).

### **MULTIPLE CHOICE QUESTIONS**

19. The process of recording transactions has become more efficient because
  - a. fewer events can be quantified in financial terms.
  - b. computers are used in processing business events.
  - c. more people have been hired to record business transactions.
  - d. business events are recorded only at the end of the year.
20. Which list below best describes the major services performed by public accountants?
  - a. Bookkeeping, mergers, budgets
  - b. Employee training, auditing, bookkeeping
  - c. Auditing, taxation, management consulting
  - d. Cost accounting, production scheduling, recruiting
21. A private accountant can perform many activities in a business organization but would *not* work in
  - a. budgeting.

b. accounting information systems.

c. external auditing.

d. tax accounting.

22. Generally accepted accounting principles are

a. income tax regulations of the Internal Revenue Service.

b. standards that indicate how to report economic events.

c. theories that are based on physical laws of the universe.

d. principles that have been proven correct by academic researchers.

23. The cost principle requires that when assets are acquired, they be recorded at

a. appraisal value.

b. exchange price paid.

c. selling price.

d. list price.

24. The cost of an asset and its fair market value are

a. never the same.

b. the same when the asset is sold.

c. irrelevant when the asset is used by the business in its operations.

d. the same on the date of acquisition.

25. GAAP stands for

a. Generally Accepted Auditing Procedures.

b. Generally Accepted Accounting Principles.

c. Generally Accepted Auditing Principles.

d. Generally Accepted Accounting Procedures.

26. The proprietorship form of business organization

a. must have at least three owners in most states.

b. represents the largest number of businesses in the United States.

c. combines the records of the business with the personal records of the owner.

d. is characterized by a legal distinction between the business as an economic unit and the owner.

27. The economic entity assumption requires that the activities

a. of different entities can be combined if all the entities are corporations.

b. must be reported to the Securities and Exchange Commission.

c. of a sole proprietorship cannot be distinguished from the personal economic events of its owners.

d. of an entity be kept separate from the activities of its owner.

28. A business organized as a corporation

a. is not a separate legal entity in most states.

b. requires that stockholders be personally liable for the debts of the business.

c. is owned by its stockholders.

d. terminates when one of its original stockholders dies.

29. The assumption that the unit of measure remains sufficiently constant over time is part of the

a. economic entity assumption.

b. cost principle.

c. historical cost principle.

d. monetary unit assumption.

30. A business that enjoys limited liability is a

a. proprietorship.

b. partnership.

c. corporation.

d. sole proprietorship.

31. A problem with the monetary unit assumption is that

a. the currency has not been stable over time.

b. the currency has been stable over time.

c. the currency is a common medium of exchange.

- d. it is impossible to account for international transactions.
32. The basic accounting equation *cannot* be restated as
- Assets – Liabilities = Owner's Equity.
  - Assets – Owner's Equity = Liabilities.
  - Owner's Equity + Liabilities = Assets.
  - Assets + Liabilities = Owner's Equity.
33. The double-entry system requires that each transaction must be recorded
- in at least two different accounts.
  - in two sets of books.
  - in a journal and in a ledger.
  - first as a revenue and then as an expense.
34. A credit is *not* the normal balance for which account listed below?
- Capital account
  - Revenue account
  - Liability account
  - Drawing account
35. Which one of the following represents the expanded basic accounting equation?
- Assets = Liabilities + Owner's Capital + Owner's Drawings – Revenue – Expenses.
  - Assets + Owner's Drawings + Expenses = Liabilities + Owner's Capital + Revenues.
  - Assets – Liabilities – Owner's Drawings = Owner's Capital + Revenues – Expenses.
  - Assets = Revenues + Expenses – Liabilities.
36. Which of the following correctly identifies normal balances of accounts?
- Assets Debit                      Liabilities Credit

Owner's Equity Credit

Revenues Debit                      Expenses Credit  
b. Assets Debit                      Liabilities Credit

Owner's Equity Credit

Revenues Credit                      Expenses Credit  
c. Assets Credit                      Liabilities Debit

Owner's Equity Debit

Revenues Credit                      Expenses Debit  
d. Assets Debit                      Liabilities Credit

Owner's Equity Credit

Revenues Credit                      Expenses Debit

37. The best interpretation of the word credit is the

- a. offset side of an account.
- b. increase side of an account.
- c. right side of an account.
- d. decrease side of an account.

38. In recording transaction in a double-entry system

- a. the number of debit accounts must equal the number of credit accounts.
- b. there must always be entries made on both sides of the accounting equation.
- c. the amount of the debits must equal the amount of the credits.
- d. there must only be two accounts affected by any transaction.

39. An accounting convention is best described as

- a. an absolute truth.
- b. an accounting custom.
- c. an optional rule.
- d. something that cannot be changed.

40. A debit is *not* the normal balance for which account listed below?

- a. Drawing

- b. Cash
- c. Accounts Receivable
- d. Service Revenue

41. An accountant has debited an asset account for \$1,000 and credited a liability account for \$500. What can be done to complete the recording of the transaction?

- a. Nothing further must be done.
- b. Debit an owner's equity account for \$500.
- c. Debit another asset account for \$500.
- d. Credit a different asset account for \$500.

42. An accountant has debited an asset account for \$1,000 and credited a liability account for \$500. Which of the following would be an *incorrect* way to complete the recording of the transaction?

- a. Credit an asset account for \$500.
- b. Credit another liability account for \$500.
- c. Credit an owner's equity account for \$500.
- d. Debit an owner's equity account for \$500.

43. Which of the following is *not* true of the terms debit and credit?

- a. They can be abbreviated as Dr. and Cr.
- b. They can be interpreted to mean increase and decrease.
- c. They can be used to describe the balance of an account.
- d. They can be interpreted to mean left and right.

44. An account will have a credit balance if the

- a. credits exceed the debits.
- b. first transaction entered was a credit.
- c. debits exceed the credits.
- d. last transaction entered was a credit.

45. For the basic accounting equation to stay in balance, each transaction recorded must

- a. affect two or less accounts.
  - b. affect two or more accounts.
  - c. always affect exactly two accounts.
  - d. affect the same number of asset and liability accounts.
46. Which of the following statements is true?
- a. Debits increase assets and increase liabilities.
  - b. Credits decrease assets and decrease liabilities.
  - c. Credits decrease assets and increase liabilities.
  - d. Debits decrease liabilities and decrease assets.
47. Assets normally show
- a. credit balances.
  - b. debit balances.
  - c. debit and credit balances.
  - d. debit or credit balances.
48. An awareness of the normal balances of accounts would help you spot which of the following as an error in recording?
- a. A debit balance in the drawing account
  - b. A credit balance in an expense account
  - c. A credit balance in a liabilities account
  - d. A credit balance in a revenue account
49. If a company has overdrawn its bank balance, then
- a. its cash account will show a debit balance.
  - b. its cash account will show a credit balance.
  - c. the cash account debits will exceed the cash account credits.
  - d. it cannot be detected by observing the balance of the cash account.
50. Which account below is *not* a subdivision of owner's equity?
- a. Drawing
  - b. Revenues
  - c. Expenses



d. Liabilities

51. When an owner makes a withdrawal

- a. it doesn't have to be cash, it could be another asset.
- b. the drawing account will be increased with a credit.
- c. the capital account will be directly increased with a debit.
- d. the drawing account will be decreased with a debit.

52. The drawing account

- a. appears on the income statement along with the expenses of the business.
- b. must show transactions every accounting period.
- c. is increased with debits and decreased with credits.
- d. is not a proper subdivision of owner's equity.

53. Which of the following statements is *not* true?

- a. Expenses increase owner's equity.
- b. Expenses have normal debit balances.
- c. Expenses decrease owner's equity.
- d. Expenses are a negative factor in the computation of net income.

54. A credit to a liability account

- a. indicates an increase in the amount owed to creditors.
- b. indicates a decrease in the amount owed to creditors.
- c. is an error.
- d. must be accompanied by a debit to an asset account.

***B. Exercises:***

1. In the first month of operations, the total of the debit entries to the cash account amounted to \$900 and the total of the credit entries to the cash account amounted to \$500. The cash account has a(n)

- a. \$500 credit balance.

- b. \$800 debit balance.
  - c. \$400 debit balance.
  - d. \$400 credit balance.
2. Dawson's Delivery Service purchased equipment for \$2,500. Dawson paid \$500 in cash and signed a note for the balance. Dawson debited the Equipment account, credited Cash and
- a. nothing further must be done.
  - b. debited the Dawson, Capital account for \$2,000.
  - c. credited another asset account for \$500.
  - d. credited a liability account for \$2,000.
3. Grayton Industries purchased supplies for \$1,000. They paid \$500 in cash and agreed to pay the balance in 30 days. The journal entry to record this transaction would include a
- debit to an asset account for \$1,000, a credit to a liability account for \$500. Which of the following would be the correct way to complete the recording of the transaction?
- a. Credit an asset account for \$500.
  - b. Credit another liability account for \$500.
  - c. Credit the Grayton, Capital account for \$500.
  - d. Debit the Grayton, Capital account for \$500.
4. On January 14, Franco Industries purchased supplies of \$500 on account. The entry to record the purchase will include
- a. a debit to Supplies and a credit to Accounts Payable.
  - b. a debit to Supplies Expense and a credit to Accounts Receivable.
  - c. a debit to Supplies and a credit to Cash.
  - d. a debit to Accounts Receivable and a credit to Supplies.
5. On June 1, 2008, Delbert Inc. reported a cash balance of \$12,000. During June, Delbert made deposits of \$3,000 and made disbursements totalling \$16,000. What is the cash balance at the end of June?

- a. \$1,000 debit balance
- b. \$15,000 debit balance
- c. \$1,000 credit balance
- d. \$4,000 credit balance

6. In the first month of operations for Pocket Industries, the total of the debit entries to the cash account amounted to \$8,000 (\$4,000 investment by the owner and revenues of \$4,000). The total of the credit entries to the cash account amounted to \$5,000 (purchase of equipment \$2,000 and payment of expenses \$3,000). At the end of the month, the cash account has a(n)

- a. \$2,000 credit balance.
- b. \$2,000 debit balance.
- c. \$3,000 debit balance.
- d. \$3,000 credit balance.

7. Denton Company showed the following balances at the end of its first year:

Cash \$ 7,000

Prepaid insurance 700

Accounts receivable 3,500

Accounts payable 2,800

Notes payable 4,200

Denton, Capital 1,400

Denton, Drawing 700

Revenues 21,000

Expenses 17,500

What did Denton Company show as total credits on its trial balance?

- a. \$30,100
- b. \$29,400
- c. \$28,700

d. \$30,800

8. Cerner Company showed the following balances at the end of its first year:

Cash \$ 5,000

Prepaid insurance 500

Accounts receivable 2,500

Accounts payable 2,000

Notes payable 3,000

Cerner, Capital 1,000

Cerner, Drawing 500

Revenues 15,000

Expenses 12,500

What did Cerner Company show as total credits on its trial balance?

a. \$21,500

b. \$21,000

c. \$20,500

d. \$22,000

9. During February 2008, its first month of operations, the owner of Rutwing Enterprises invested cash of \$25,000. Rutwing had cash revenues of \$4,000 and paid expenses of \$7,000. Assuming no other transactions impacted the cash account, what is the balance in Cash at February 28?

a. \$3,000 credit

b. \$22,000 debit

c. \$29,000 debit

d. \$18,000 credit

10. Tritan Company received a cash advance of \$500 from a customer. As a result of this event,

a. assets increased by \$500.

b. owner's equity increased by \$500.

c. liabilities decreased by \$500.

d. both a and b.

11. Anderson Company purchased equipment for \$1,800 cash. As a result of this event,

a. owner's equity decreased by \$1,800.

b. total assets increased by \$1,800.

c. total assets remained unchanged.

d. Both a and b.

## *Accounting Cycle: Second stage, step 4-7*

### **A. Questions:**

1- The financial statement that reports the revenues and expenses for a period of time such as a year or a month is the

- a. **Balance sheet**   b. **Income statement**   c. **Statement of cash flows**

2- The financial statement that reports the assets, liabilities, and stockholders' (owner's) equity at a specific date is the

- a. **Balance sheet**   b. **Income statement**   c. **Statement of cash flows**

3- Another name for the balance sheet is

- a. **Statement of Operations**   b. **Statement of Financial Position**

4- The balance sheet heading will specify a

- a. **Period of time**   b. **Point in time**

5- Which of the following is a category or element of the balance sheet?

- a. **Expenses**   b. **Gains**   c. **Liabilities**   d. **Losses**

6- Assets are usually reported on the balance sheet at which amount?

- a. **Cost**   b. **Current market value**   c. **Expected selling price**

7- Unearned Revenues is what type of account?

- a. **Asset**   b. **Liability**   c. **Owner's Equity**

8- Which of the following is an asset account?

- a. **Accounts Payable**   b. **Prepaid Insurance**   c. **Unearned Revenue**

9- Which of the following is a contra account?

- a. **Accumulated Depreciation**   b. **Mary Smith, Capital**

10- Under the accrual basis of accounting, revenues are reported in the accounting period when the

- a. **Cash is received**   b. **Service or goods have been delivered**

11- Under the accrual basis of accounting, expenses are reported in the accounting period when the

- a. **Cash is paid**   b. **Expense matches the revenues or is used up**

12- Adjusting entries are usually dated the last day of the accounting period and they convert accounts from the cash basis of accounting to the \_\_\_\_\_ basis of accounting.

13- A common characteristic of an adjusting entry is that it involves a balance sheet account and an \_\_\_\_\_ account.

14- Company S received money in advance of providing services to Company P. The money received before it is earned is an increase to Company S's asset account **Cash**.

The amount unearned should also be reported as

**Another asset                  Liability                  Revenues**

15. Net income results when

- a. Assets > Liabilities.
- b. Revenues = Expenses.
- c. Revenues > Expenses.
- d. Revenues < Expenses.

16. Owner's capital at the end of the period is equal to

- a. owner's capital at the beginning of the period plus net income minus liabilities.
- b. owner's capital at the beginning of the period plus net income minus drawings.
- c. net income.
- d. assets plus liabilities.

17. A balance sheet shows

- a. revenues, liabilities, and owner's equity.
- b. expenses, drawings, and owner's equity.
- c. revenues, expenses, and drawings.
- d. assets, liabilities, and owner's equity.

18. An income statement

- a. summarizes the changes in owner's equity for a specific period of time.

- b. reports the changes in assets, liabilities, and owner's equity over a period of time.
  - c. reports the assets, liabilities, and owner's equity at a specific date.
  - d. presents the revenues and expenses for a specific period of time.
19. If the owner's equity account increases from the beginning of the year to the end of the year, then
- a. net income is less than owner drawings.
  - b. a net loss is less than owner drawings.
  - c. additional owner investments are less than net losses.
  - d. net income is greater than owner drawings.
20. The balance sheet is frequently referred to as
- a. an operating statement.
  - b. the statement of financial position.
  - c. the statement of cash flows.
  - d. the statement of owner's equity.
21. The primary purpose of the statement of cash flows is to report
- a. a company's investing transactions.
  - b. a company's financing transactions.
  - c. information about cash receipts and cash payments of a company.
  - d. the net increase or decrease in cash.
22. All of the financial statements are for a period of time *except* the
- a. income statement.
  - b. owner's equity statement.
  - c. balance sheet.
  - d. statement of cash flows.
23. The ending owner's equity amount is shown on
- a. the balance sheet only.
  - b. the owner's equity statement only.
  - c. both the income statement and the owner's equity statement.
  - d. both the balance sheet and the owner's equity statement.



## **General Questions:**

### **First Question:**

Choose the right answer a, b, c, or d:

1. A merchandising company that sells directly to consumers is a
  - a. retailer.
  - b. wholesaler.
  - c. broker.
  - d. service company.
  
2. Sales revenue less cost of goods sold is called
  - a. gross profit.
  - b. net profit.
  - c. net income.
  - d. marginal income.
  
3. After gross profit is calculated, operating expenses are deducted to determine
  - a. gross margin.
  - b. net income.
  - c. gross profit on sales.
  - d. net margin.
  
4. Cost of goods sold is determined only at the end of the accounting period in
  - a. a perpetual inventory system.
  - b. a periodic inventory system.
  - c. both a perpetual and a periodic inventory system.
  - d. neither a perpetual nor a periodic inventory system.
  
5. In a perpetual inventory system, cost of goods sold is recorded
  - a. on a daily basis.
  - b. on a monthly basis.
  - c. on an annual basis.
  - d. with each sale.
  
6. Under a periodic inventory system, purchase of merchandise is debited to the
  - a. Merchandise Inventory account.
  - b. Cost of Goods Sold account.
  - c. Purchases account.
  - d. Accounts Payable account.
  
7. The journal entry to record a return of merchandise purchased on account under a perpetual inventory system would credit
  - a. Accounts Payable.
  - b. Purchase Returns and Allowances.
  - c. Sales.
  - d. Merchandise Inventory.
  
8. A buyer would record a payment within the discount period under a perpetual inventory system using total invoice value by crediting

- a. Accounts Payable.
  - b. Merchandise Inventory.
  - c. Purchase Discounts (taken).
  - d. Sales Discounts (given).
9. Which of the following accounts has a normal credit balance?
- a. Sales Returns and Allowances
  - b. Sales Discounts
  - c. Sales
  - d. Selling Expense
10. The journal entry to record a return of merchandise purchased on account under a periodic inventory system would be
- a. Accounts Payable  
    Purchase Returns and Allowances
  - b. Purchase Returns and Allowances  
    Accounts Payable
  - c. Accounts Payable  
    Inventory
  - d. Inventory  
    Accounts Payable
11. Which of the following accounts has a normal credit balance?
- a. Purchases
  - b. Sales Returns and Allowances
  - c. Transportation-in
  - d. Purchase Discounts (taken).
12. Flynn Company purchased merchandise inventory with an invoice price of \$5,000 and credit terms of 2/10, n/30. What is the net cost of the goods if Flynn Company pays within the discount period?
- a. \$5,000
  - b. \$4,900
  - c. \$4,500
  - d. \$4,600
13. The entry to record the collection of the sale amount within the discount period on a sale of \$750 with terms of 2/10, n/30 will include a credit to
- a. Sales Discounts for \$15.
  - b. Cash for \$735.
  - c. Accounts Receivable for \$750.
  - d. Sales for \$750.
14. Company X sells \$400 of merchandise on account to Company Y with credit terms of 2/10, n/30. If Company Y issued a check taking advantage of the discount offered, what is the amount of Company Y's check?
- a. \$280
  - b. \$392
  - c. \$360
  - d. \$320

15. The credit terms offered to a customer by a business firm are 2/10, n/30, which means that
- the customer must pay the bill within 10 days.
  - the customer can deduct a 2% discount if the bill is paid between the 10th and 30<sup>th</sup> day from the invoice date.
  - the customer can deduct a 2% discount if the bill is paid within 10 days of the invoice date.
  - two sales returns can be made within 10 days of the invoice date and no returns thereafter.

16. Hale Company sells merchandise on account for \$1,500 to Kear Company with credit terms of 2/10, n/30. Kear Company returns \$300 of merchandise that was damaged, along with a check to settle the account within the discount period. What is the amount of the check?

- \$1,470
- \$1,476
- \$1,200
- \$1,176

17. Feine Company sells merchandise on account for \$2,000 to Tang Company with credit terms of 2/10, n/30. Tang Company returns \$300 of merchandise that was damaged, along with a check to settle the account within the discount period. What entry does Feine Company make upon receipt of the check?

- |                           |       |       |
|---------------------------|-------|-------|
| Cash .....                | 1,700 |       |
| Accounts Receivable ..... |       | 1,700 |
- |                                    |       |       |
|------------------------------------|-------|-------|
| Cash .....                         | 1,666 |       |
| Sales Returns and Allowances ..... | 334   |       |
| Accounts Receivable .....          |       | 2,000 |
- |                                    |       |       |
|------------------------------------|-------|-------|
| Cash .....                         | 1,666 |       |
| Sales Returns and Allowances ..... | 300   |       |
| Sales Discounts (given) .....      | 34    |       |
| Accounts Receivable .....          |       | 2,000 |
- |                                    |       |       |
|------------------------------------|-------|-------|
| Cash .....                         | 1,960 |       |
| Sales Discounts .....              | 40    |       |
| Sales Returns and Allowances ..... |       | 300   |
| Accounts Receivable .....          |       | 1,700 |

18. Logan Company made a purchase of merchandise on credit from Claude Corporation on August 3, for \$6,000, terms 2/10, n/45. On August 10, Logan makes the appropriate payment to Claude. The entry to record the cash payment on August 10 in Logan Company books using net cost method is

- |                        |       |       |
|------------------------|-------|-------|
| Accounts Payable ..... | 6,000 |       |
| Cash .....             |       | 6,000 |
- |                        |       |       |
|------------------------|-------|-------|
| Accounts Payable ..... | 5,880 |       |
| Cash .....             |       | 5,880 |
- |                                       |       |       |
|---------------------------------------|-------|-------|
| Accounts Payable .....                | 6,000 |       |
| Purchase Returns and Allowances ..... | 120   |       |
| Cash .....                            |       | 5,880 |
- |                        |       |       |
|------------------------|-------|-------|
| Accounts Payable ..... | 6,000 |       |
| Discount taken .....   | 120   |       |
| Cash .....             |       | 5,880 |

Use the following information for questions 19–22.

A company using periodic inventory system and just starting business, made the following four inventory purchases in June:

June 1	1500 units	\$ 9000
June 10	2000 units	14000
June 15	3000 units	24000
June 28	<u>1500</u> units	<u>15000</u>
Total	8000 units	\$ 62000

A physical count of inventory on June 30 reveals that there are 2000 units on hand.

19. Using the LIFO inventory method, the value of the ending inventory on June 30 is

- a. \$ 12500
- b. \$ 19000
- c. \$ 12000
- d. \$ 20000

20. Using the FIFO inventory method, the amount allocated to cost of goods sold for June is

- a. \$ 49500
- b. \$ 42000
- c. \$ 43000
- d. \$ 50000

21. Using the average-cost method, the amount allocated to the ending inventory on June 30 is

- a. \$ 16000
- b. \$ 15500
- c. \$ 14000
- d. \$ 12000

22. The inventory method which results in the highest gross profit for June is

- a. the FIFO method.
- b. the LIFO method.
- c. the weighted average unit cost method.
- d. not determinable.

Use the following information for questions 23–25.

At May 1, 2008, Treeline Company had beginning inventory consisting of 100 units with a unit cost of \$7. During May, the company purchased inventory as follows:

200 units at \$7 each

300 units at \$8 each

The company sold 500 units during the month for \$12 per unit. Treeline uses the average cost method.

23. The average cost per unit for May is

- a. \$7.00.
- b. \$7.50.
- c. \$7.60.
- d. \$8.00.

24. The value of Treeline's inventory at May 31, 2008 is

- a. \$700.
- b. \$750.
- c. \$800.
- d. \$4,500.

25. Treeline's gross profit for the month of May is

- a. \$2,250.
- b. \$3,750.
- c. \$4,500.
- d. \$6,000.

Use the following inventory information for questions 26–28.

- July 1 Beginning Inventory 200 units at \$ 30 each
- 5 Purchases 800 units at \$25 each
- 14 Sale 700 units
- 21 Purchases 1700 units at \$20 each
- 30 Sale 1500 units

26. Assuming that a perpetual inventory system is used, what is the cost of ending inventory on a FIFO basis?

- a. \$15000
- b. \$10000
- c. \$12500
- d. \$12000

27. Assuming that a perpetual inventory system is used, what is the cost of ending inventory on a LIFO basis?

- a. \$15000
- b. \$10000
- c. \$12500
- d. \$12000

28. Assuming that a perpetual inventory system is used, what is the cost of ending inventory under the average-cost method?

- a. \$10650
- b. \$10000
- c. \$12500
- d. \$10450

### **Second Question:**

Choose the right answer a, b, c, or d:

29. Outstanding checks are:

- a. checks issued by the bank but not paid or recorded yet by the company.
- b. checks issued by the bank but not paid or recorded yet by the bank.
- c. checks issued by the company but not paid or recorded yet by the company.
- d. checks issued by the company but not paid or recorded yet by the bank.

Use the following inventory information for questions 30–32  
 Allowance for doubtful accounts 1/1/2019 \$50000  
 Actual uncollectible accounts (bad debts) during 2019 \$70000  
 Recovery of previous uncollectible accounts, collected in cash, \$5000  
 Accounts receivable 31/12/2019 \$800000  
 New allowance is 5% of accounts receivable  
 The company uses the balance sheet approach

30. The journal entry to record the actual uncollectible accounts:

- a. Allowance for doubtful accounts..... 70000  
     Accounts Receivable ..... 70000
- b. Accounts Receivable ..... 70000  
     Allowance for doubtful accounts..... 70000
- c. Allowance for doubtful accounts..... 70000  
     Cash ..... 70000
- d. Cash ..... 70000  
     Allowance for doubtful accounts..... 70000

31. The journal entry to record the recovery of previous uncollectible accounts:

- a. Allowance for doubtful accounts..... 5000  
     Accounts Receivable ..... 5000
- b. Accounts Receivable ..... 5000  
     Allowance for doubtful accounts..... 5000
- c. Allowance for doubtful accounts..... 5000  
     Cash ..... 5000
- d. Cash ..... 5000  
     Allowance for doubtful accounts..... 5000

32. The adjusting entry to record the settlement of allowance at 31/12/2019:

- a. Allowance for doubtful accounts..... 55000  
     Accounts Receivable ..... 55000
- b. Uncollectible accounts expense..... 55000  
     Allowance for doubtful accounts..... 55000
- c. Uncollectible accounts expense..... 25000  
     Allowance for doubtful accounts..... 25000
- d. Cash ..... 55000  
     Allowance for doubtful accounts..... 55000

Use the following inventory information for questions 33-35

Allowance for doubtful accounts 1/1/2019 \$60000  
 Actual uncollectible accounts (bad debts) during 2019 \$52000  
 Recovery of previous uncollectible accounts, collected in cash, \$12000  
 Accounts receivable 31/12/2019 \$500000  
 Net credit sales \$600000  
 New allowance is 5% of net credit sales  
 The company uses the income statement approach

33. The journal entry to record the actual uncollectible accounts:
- a. Accounts Receivable ..... 52000  
     Allowance for doubtful accounts..... 52000
  - b. Allowance for doubtful accounts..... 52000  
     Accounts Receivable ..... 52000
  - c. Allowance for doubtful accounts..... 52000  
     Cash ..... 52000
  - d. Cash ..... 52000  
     Allowance for doubtful accounts..... 52000

34. The journal entry to record the recovery of previous uncollectible accounts:
- a. Allowance for doubtful accounts..... 12000  
     Accounts Receivable ..... 12000
  - b. Cash ..... 12000  
     Allowance for doubtful accounts..... 12000
  - c. Allowance for doubtful accounts..... 12000  
     Cash ..... 12000
  - d. Accounts Receivable ..... 12000  
     Allowance for doubtful accounts..... 12000

35. The adjusting entry to record the settlement of allowance at 31/12/2019:
- a. Allowance for doubtful accounts..... 10000  
     Accounts Receivable ..... 10000
  - b. Uncollectible accounts expense..... 10000  
     Allowance for doubtful accounts..... 10000
  - c. Uncollectible accounts expense..... 30000  
     Allowance for doubtful accounts..... 30000
  - d. Cash ..... 30000  
     Allowance for doubtful accounts..... 30000

36. ABC Company purchased a machine for note amounted to \$150000 on July 30. Transportation expense was \$6000 and installation expense was \$4000, these expenses paid in cash.

The journal entry is:

- a. Debit: machines \$150000, transportation expense \$6000 and installation expense \$4000, credit: notes payable \$150000, cash \$10000.
- b. Debit: machines \$160000, credit: notes payable \$150000, cash \$10000.
- c. Debit: machines \$150000 and cash \$10000, credit: notes payable \$150000, transportation expense \$6000 and installation expense \$4000.
- d. Debit: machines \$160000, credit: accounts payable \$150000, cash \$10000.

37. ABC Company paid in cash the following expenses:

1. Periodical maintenance of machines \$3000.
2. renewal of vehicle engine \$10000.

The journal entry is:

- a. Debit: machines \$3000, and renewal expense \$10000, credit: cash \$13000.
- b. Debit: machines \$3000, and vehicles \$10000, credit: cash \$13000.
- c. Debit: maintenance expense \$3000, and vehicles \$10000, credit: cash \$13000.
- d. Debit: maintenance expense \$3000, and renewal expense \$10000, credit: cash \$13000.

38. ABC Company purchased an equipment for \$100000 on January 1, 2018. The annual depreciation rate is 20%. It has \$5000 Residual value. Annual depreciation expense, using declining method, at 31/12/2018 and 31/12/2019 on the equipment is:

- a. \$20000 2018 and \$20000 2019.
- b. \$19000 2018 and \$19000 2019.
- c. \$20000 2018 and \$19000 2019.
- d. \$20000 2018 and \$16000 2019.

39. ABC Company purchased a machine for \$175000 on June 30. The company expects to use the equipment for 5 years. It has \$15000 Residual value. The total estimated units could be produced by this machine are 80000 units. The actual production for the first three years was:

2017 15000 units, 2018 20000 units and, 2019 17000 units.

Annual depreciation expense, using units of outputs method, at 31/12/2017 and 31/12/2018 on the machine is:

- a. \$16000 2017 and \$32000 2018.
- b. \$30000 2017 and \$40000 2018.
- c. \$32000 2017 and \$32000 2018.
- d. \$40000 2017 and \$34000 2017.

40. The cost of old equipment is \$150000. The accumulated depreciation of this equipment until date of sale is \$135000. This equipment was sold in cash and the sale value was \$20000.

The journal entry is:

a. Cash.....	10,000
Accumulated Depreciation—Equipment .....	135,000
Loss on Disposal.....	5,000
Equipment .....	150,000
b. Cash.....	20,000
Equipment .....	150,000
Accumulated Depreciation—Equipment.....	135,000
Gain on Disposal .....	35,000
c. Cash.....	20,000
Accumulated Depreciation— Equipment.....	135,000
Equipment.....	150,000
Gain on Disposal .....	5,000
d. Accumulated Depreciation—Equipment.....	135,000
Loss on Disposal.....	35,000
Equipment .....	150,000
Cash.....	20,000

***Best Wishes***