ACCT 200 Practice Exam 2 (08W).doc - Microsoft Word

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1. Which of the following is not an objective of a company's internal control policies and procedures?

   a. The proper recording and authorization of transaction.
   b. The maintenance of adequate records.
   c. The prevention or detection of unauthorized activities involving a company's records.
   d. The provision of current information for outside investors and analysis.

Bal per books
G/L
+ Int Earned
+ Collections by bank
- Sv. chgs
- NSF
Bal per bank
Bank Stmt.
+ DIT
- o/s chks

2. Which of the following situations would cause the balance per bank to be less than the balance per books?

   a. Interest payments made by the bank.
   b. NSF checks from customers about which the payee is unaware.
   c. Outstanding checks.
   d. All of the above.

3. Which of the following situations would cause the balance per bank to be more than the balance per books?

   a. Deposits in transit.
   b. Service charges.
   c. Outstanding checks.
   d. NSF checks from customers about which the payee is unaware.

c. Outstanding checks.
d. NSF checks from customers about which the payee is unaware.

4. When you identify outstanding checks in performing bank reconciliation:

a. deduct the amount of the outstanding checks from the balance per books.
[redacted] b. deduct the amount of the outstanding checks from the balance per bank.
c. add the amount of the outstanding checks to the balance per books.
d. add the amount of the outstanding checks to the balance per bank.

5. In a retail business that uses a perpetual inventory system, scanning a bar code:

a. calculates the amount owed by the customer.
b. removes the item sold from the inventory account.
c. adds the item sold to the cost of goods sold account.
d. All of the above.

6. The perpetual inventory method of tracking inventory is considered superior to the periodic method because:

   a. calculations are easier and less technology can be deployed.
   b. the method tells what inventory a company should have at any point in time.
   c. the method saves a company from ever having to count the goods in inventory.
   d. the method is more consistent with how companies calculated inventory in the past.

7. Thirty years ago, most companies relied mainly upon periodic inventory systems. Why?

   a. Theft was an insignificant source of loss compared to today.
   b. The tax code required physical inventory counts until tax regulations were changed in the 1980s.
   c. New technology, allowing perpetual inventory systems to be installed more easily and inexpensively, was not available thirty years ago.
   d. Before the advent of computers, perpetual systems were less accurate than periodic systems.

8. The cost of goods sold equation is:

   a. Beginning inventory + Purchases + Purchase discounts + Purchase returns and allowances – Counted ending inventory = Cost of Goods Sold
   b. Beginning inventory – Purchases – Purchase discounts – Purchase returns and allowances – Counted ending inventory = Cost of Goods Sold
   c. Beginning inventory + Purchases – Purchase discounts – Purchase returns and allowances – Counted ending inventory = Cost of Goods Sold
   d. Beginning inventory + Purchases – Purchase discounts – Purchase returns and

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d. Beginning inventory + Purchases – Purchase discounts – Purchase returns and allowances + Counted ending inventory = Cost of Goods Sold

9. Under the periodic inventory system:

a. Inventory must be counted at the beginning and end of each accounting period.
b. Inventory must only be counted at the end of each accounting period. (The ending inventory from the previous period can be used as the beginning inventory for the next period.)
c. Inventory does not have to be counted. (It can be taken from the accounting records.)
d. Inventory levels must be counted every day.

10. A company buys goods for $15,000 on credit for sale to consumers. Under a perpetual inventory system:

→ a. $15,000 will be debited to inventory and $15,000 credited to accounts payable.
b. $15,000 will be debited to inventory and $15,000 credited to purchases.
c. $15,000 will be credited to inventory and $15,000 credited to cash.
d. $15,000 will be debited to purchases and $15,000 credited to accounts payable.

11. A company has gross profit of $58,300 and a gross profit percent of 25%. What is the company's gross sale?

100% S = 233,200
<75%> <COGS>
25% Gross Profit = $58,300

→ a. $233,200.
b. $14,575.
c. $72,825.
d. None of the above.

12. A company has net sales of $612,850 with cost of goods of $441,252. The company's gross profit percent is:

S 612,850 100%
<COGS> <441,252> <72%>
Gross Profit 171,598 28%

a. 72%
b. 3.57%
c. 0.389%
→ d. 28%

13. When an adjusting entry is made in anticipation of certain debt being uncollectible:

a. the adjustment reduces both net income and net accounts receivable.
b. the adjustment reduces net income and increases liabilities.

c. $15,000 will be credited to inventory and $15,000 credited to cash.
d. $15,000 will be debited to purchases and $15,000 credited to accounts payable.

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    b. the adjustment reduces net income and increases liabilities.
    c. the adjustment reduces net accounts receivable and increases liabilities.
    d. the adjustment reduces net income and expenses.

14. Over the past five years a company has average annual credit sales of $320,000 and an average annual bad debt loss of $2,000. Current credit sales are $300,000. Using the percentage of credit sales method, what should the company post as an estimate of bad debt expense?

15. Your company wrote off $350 in accounts receivable two months ago, when a customer went bankrupt. That customer reorganizes and now pays the $350. Your company should:

a. credit cash and debit bad debt expense.
b. debit accounts receivable and credit bad debt expense followed by a debit to bad debt allowance and a credit to cash.
c. debit cash and credit bad debt expense.
d. debit accounts receivable and credit allowances for bad debts and then debt cash and credit accounts receivable.

16. The specific identification method would probably be most appropriate for which of the following goods?

a. Boxes of brass 4-inch drywall screws at Home Depot.
b. Bottles of suntan lotion in Wal-Mart's central warehouse.
c. Sets of tires at the Goodyear plant.
d. Diamond necklace at Tiffany's.

17. Which of the following is true?

a. The weighted average cost method always yields a net income between that of the other two.
b. FIFO will lead to the highest net income if unit costs are falling.
c. LIFO will always yield a smaller net income than FIFO.
d. Specific identification is the most practical but least accurate measure of cost and net income.

18. Which of the following is true regarding companies that report their inventories on a FIFO basis?

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b. FIFO will lead to the highest net income if unit costs are falling.
c. LIFO will always yield a smaller net income than FIFO.
d. Specific identification is the most practical but least accurate measure of cost and net income.

18. Which of the following is true regarding companies that report their inventories on a FIFO basis?

a. They will have a higher income tax expense than companies using LIFO, in times of rising prices.
b. They also must report the cost of ending inventory on a LIFO basis.
c. Both of the above.
d. None of the above.

19. Under the cost principle:

a. only reasonable and necessary costs of acquiring an asset should be recorded as a cost of the asset.
b. costs of preparing an asset for use should never be recorded as part of the cost of the asset.
c. all reasonable and necessary costs of acquiring an asset and preparing it for use should be recorded as a cost of the asset.
d. only the actual purchase price of the asset is recorded as the cost of the asset.

20. The intangible asset most frequently reported by US businesses is:

a. goodwill.
b. trademarks.
c. patents.
d. licensing rights.

21. The main difference between ordinary repairs and extraordinary repairs is:

a. ordinary repairs cost less.
b. ordinary repairs only maintain the assets close to their original condition, whereas extraordinary repairs increase the usefulness of assets beyond their original condition.
c. extraordinary repairs only maintain the asset for a short time, whereas ordinary repairs increase the usefulness of assets beyond their original condition.
d. extraordinary repairs are expenditures, not expense.

22. The Gulp convenience store chain buys new soda machines for $450,000 and pays $50,000 for installation. One half of the total cost is paid in cash; the other half is financed. The company would record this transaction in which way?

a. Credit equipment $500,000, debit cash $250,000 and debit notes payable $250,000.
b. Debit equipment $500,000, credit cash $250,000 and credit notes payable $250,000.
c. Credit equipment $450,000, credit expenses $50,000, debit cash $250,000 and debit notes payable $250,000.
d. Debit equipment $450,000, debit expenses $50,000, credit cash $250,000 and credit notes payable $250,000.

23. Ordinary repairs and maintenance:

a. are part of the asset cost of equipment and facilities.
b. are recorded as expenses.
c. are recorded as liabilities.
d. improve the asset beyond the current accounting period.

24. When a company records depreciation:

a. the company credits expenses and debits liabilities.
b. the company credits cash and debits expenses.
c. the company credits a contra-asset account and debits expenses.
d. the company credits expenses and debits long-lived assets.

25. The Buddy Burger Corporation has $3.5 million in long-lived assets and has an accumulated depreciation account of $1.1 million. Which of the following is true?

a. The book value of long-lived assets is $2.4 million.

25. The Buddy Burger Corporation has $3.5 million in long-lived assets and has an accumulated depreciation account of $1.1 million. Which of the following is true?

→ a. The book value of long-lived assets is $2.4 million. (= Carrying Value)
b. The market value of long-lived assets is $3.5 million.
c. The carrying value of long-lived assets is $3.5 million.
d. The resale value of long-lived assets is $2.4 million.

26. The book or carrying value of an asset is:

→ a. its acquisition cost less the accumulated depreciation from acquisition date to the balance sheet date.
b. its acquisition cost plus accumulated depreciation from acquisition date to the balance sheet date.
c. the amount that could be obtained for the asset on the balance sheet date if it were sold.
d. the annual cost of carrying the asset in inventory.

27. Purrfect Pets has a facility that originally cost $375,000. The balance of the accumulated depreciation account for the facility is $258,000. The company expects to be able to sell the facility for $107,000 at the end of its useful life. The residual value of the facility is:

Residual Value = Scrap Value = Salvage Value

a. $117,000.
b. $151,000.
c. $268,000.
→ d. $107,000.

28. A company expects to use equipment that cost $48,000 for 10 years at which time the company expects to sell it for $6,000. using straight-line depreciation the company should make an adjusting entry of:

b. $151,000.
c. $268,000.
d. $107,000.

28. A company expects to use equipment that cost $48,000 for 10 years at which time the company expects to sell it for $6,000. using straight-line depreciation the company should make an adjusting entry of:

a. $4,200 per year.
b. $8,400 per year.
c. $4,800 per year.
d. $9,600 per year.

S/L $\frac{48,000 - 6000}{10} = \boxed{4200}$

29. Under straight-line depreciation which of the following is a true statement?

a. The carrying value of an asset is a constant amount during the asset's useful life.
b. Accumulated depreciation is a constant amount during the asset's estimated useful life.
c. The book value of an asset declines by a constant amount each period no matter how long the company uses the asset.
d. Depreciation expense per period is the depreciable cost divided by the number of periods in the asset's useful life.

30. Accelerated depreciation methods:

a. cause an asset to be carried at a higher book value than the straight line method.
b. cause an asset to be carried at a lower book value than the straight line method.
c. cause an asset to be carried at the same book value as the straight line method.
d. cannot be used if the resulting book value will be significantly different from that which would result from using the straight-line method.

31. A company sells a property for $450,000 when the book value is $400,000. The company would record the extra $50,000 as:

a. a gain, increasing net income and stockholders' equity.
b. revenue, increasing net income and stockholders' equity.
c. cash, increasing assets and stockholders' equity.
d. accumulated depreciation, increasing assets and stockholders' equity.

32. As asset is purchased on January 1 for $40,000. It is expected to have a useful life of five years after which it will have an expected salvage value of $5,000. Straight-

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    c. cash, increasing assets and stockholders' equity.
    d. accumulated depreciation, increasing assets and stockholders' equity.

32. As asset is purchased on January 1 for $40,000. It is expected to have a useful life of five years after which it will have an expected salvage value of $5,000. Straight-line depreciation is used. If it is sold for $30,000 after exactly two years, the company will record:

    a. a gain of $6,000.
    → b. a gain of $4,000.
    c. a loss of $4,000.
    d. a loss of $6,000.

$$\frac{40,000 - 5000}{5} = \frac{\text{Dep./year}}{\$7000}$$

Cash 30000
Acc. dep. 14000
Gain 4000
Equip. 40,000

Acc. depre.
7000 (Yr. 1)
7000 (Yr. 2)
14000

33. Capital expenditures are recorded as:

    a. an expense.
    → b. an asset.
    c. a liability.
    d. income

34. Revenue expenditures are recorded as:

[redacted] a. an expense.
b. an asset.
c. a liability.
d. income.

35. Carlson Imports sold a depreciable plant asset for cash of $35,000. The accumulated depreciation amounted to $70,000, and a loss of $5,000 was recognized on the sale. Under these circumstances, the original cost of the asset must have been:

CASH 35000
Acc. depn. 70000
Loss 5000
Equipment 110,000

a. $65,000.
b. $75,000.
c. $100,000.
d. $110,000.

36. The entry to record the issuance of 8,000 shares of $5 par value common stock at $9 per share includes a:

a. Credit to common stock for $72,000
b. Credit to common stock for $40,000
c. Credit to paid-in capital in excess of par value-common for $40,000
d. Debit to paid-in capital in excess of par value-common for $32,000

37. When 35,000 shares of $10 par value common stock are sold at $12 per share, paid-in capital in excess of par value-common will:

a. Not be affected
b. Increase $350,000
c. Decrease $70,000
d. Increase $70,000

d. Debit to paid-in capital in excess of par value-common for $32,000

37. When 35,000 shares of $10 par value common stock are sold at $12 per share, paid-in capital in excess of par value-common will:

a. Not be affected
b. Increase $350,000
c. Decrease $70,000
d. Increase $70,000

CASH 420,000

C/S 350,000
APIC-C/S 70,000

38. Stock that a corporation has issued and later reacquired is called:

a. Issued stock
b. Outstanding stock
c. Treasury stock
d. Cumulative stock

39. Treasury stock causes:

a. Issued shares to be less than outstanding shares
b. Issued shares to be less than treasury shares
c. Outstanding shares to e less than issued shares
d. Treasury shares to be greater than outstanding shares

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40. The purchase of treasury stock:

Treasury Stock X
Cash X

a. Decreases assets and increases stockholders' equity
b. Increases assets and decreases stockholders' equity
c. Decreases assets and increases liabilities
d. Decreases assets and decreases stockholders' equity

41. A dividend is declared by the:

a. chief executive officer
b. SEC
c. Board of directors
d. President of the company

42. A dividend becomes a legal liability of the corporation on:

a. Payment date
b. Record date
c. Declaration date
d. Distribution date

43. The payment of a cash dividend previously recorded:

R/E X
Div. Payable X

DATE OF RECORD

Div. Payable X
CASH X

Payment date

a. Reduces stockholders' equity and reduces assets
b. Reduces liabilities and reduces assets
c. Increases liabilities and increases assets
d. Increases stockholders' equity and reduces liabilities

44. Stock dividends:

a. Are distributions of cash to the stockholders?

a. chief executive officer
b. SEC
c. Board of directors
d. President of the company

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a. Reduces stockholders' equity and reduces assets
b. Reduces liabilities and reduces assets
c. Increases liabilities and increases assets
d. Increases stockholders' equity and reduces liabilities

44. Stock dividends:

a. Are distributions of cash to the stockholders?
b. Has no effect on total stockholders' equity
c. Reduce the total assets of the corporation
d. Increase the total liabilities of the corporation