Test 2 Review - Fall 2008
Friday class ONLY
Chapters 5, 6, 7 & 8

Name___________________________________

The following review includes 80 multiple choice questions of which I will choose 33 on the test.

MULTIPLE CHOICE. Choose the one alternative that best completes the statement or answers the question.

1) Which of the following is the correct order of the steps in the accounting cycle for a merchandising company?
   I. The company sells inventory to customers, creating Accounts Receivable.
   II. The company collects cash.
   III. The company buys inventory.
   A) III, II, I          B) II, I, III          C) I, II, III          D) III, I, II

2) Which of the following assets does a merchandising company — but NOT a service company — need?
   A) Merchandise Inventory       B) Equipment
   C) Accounts Receivable         D) Prepaid Insurance

3) A company uses the perpetual inventory method. Which of the following entries would be made to record a $1,200 purchase of inventory on account?
   A) The accounting entry would be a $1,200 debit to Accounts Payable and a $1,200 credit to Purchases.
   B) The accounting entry would be a $1,200 debit to Inventory and a $1,200 credit to Accounts Payable.
   C) The accounting entry would be a $1,200 debit to Accounts Payable and a $1,200 credit to Inventory.
   D) The accounting entry would be a $1,200 debit to Purchases and a $1,200 credit to Accounts Payable.

4) Which of the following does "FOB Shipping Point" mean?
   A) The seller pays the transportation costs.       B) The buyer pays the transportation costs.
   C) Both A and B are true       D) Neither A nor B are true.

5) A company sells merchandise for $1,000 on account with terms of 2/10 net/30. Defective merchandise of $200 is returned 2 days later. Which of the following entries would be made to record the cash receipt for the sale if the payment is received within 10 days?
   A) The accounting entry would be a $784 debit to Cash, a $16 debit to Sales Discounts and an $800 credit to Accounts Receivable.
   B) The accounting entry would be a $16 debit to Sales Discounts, a $800 debit to Cash and a $816 credit to Accounts Receivable.
   C) The accounting entry would be an $800 debit to Cash and an $800 credit to Accounts Receivable.
   D) The accounting entry would be an $800 debit to Cash, a $16 credit to Sales Discounts and a $784 credit to Accounts Receivable.
6) Which of the following is Net Sales Revenue?
   A) Sales less Sales Returns and Allowances
   B) Sales less Sales Discounts and Sales Returns and Allowances
   C) Sales less Sales Discounts
   D) Sales less Cost of Goods Sold

Table 5.1

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

7) Refer to Table 5.1. What is net sales revenue?
   A) $400,000   B) $415,000   C) $455,000   D) $425,000

8) A company uses the perpetual inventory system. The inventory account balance is $50,000. An actual count of inventory reveals that actual inventory is $43,000. Which of the following would be included in the required adjusting entry?
   A) A $7,000 credit to Cost of Goods Sold would be required.
   B) A $43,000 credit to Inventory would be required.
   C) A $7,000 credit to Inventory would be required.
   D) A $50,000 debit to Cost of Goods Sold would be required.

9) Where do inventory and cost of goods sold appear?
   A) On the balance sheet and statement of owner's equity, respectively
   B) On the income statement and statement of cash flows, respectively
   C) On the balance sheet and income statement, respectively
   D) On the statement of owner's equity and income statement, respectively

10) Which of the following describes a single-step income statement?
    A) Format that groups all revenues together and then lists and deducts all expenses together without subtotals
    B) Format that contains subtotals to highlight significant relationships
    C) Both of the above
    D) Neither of the above

11) Which of the following is cost of goods sold divided by average inventory?
    A) Debt ratio   B) Gross profit percentage
    C) Current ratio   D) Rate of inventory turnover

12) If a company uses the periodic inventory method, which of the following is subtracted from purchases to arrive at net purchases?
    A) Beginning inventory
    B) Ending inventory
    C) Cost of goods available for sale
    D) Purchase discounts and purchase returns and allowances
13) Which of the following is generally a merchandiser’s major cost?
   A) Advertising   B) Buildings
   C) Cost of goods sold   D) Salary expense

14) A company sells merchandise for $2,000 on account FOB shipping point with terms of 2/10 net/30
    and prepays $100 of transportation costs for the buyer. Which of the following entries would be made
    to record receipt of full payment from the buyer if the payment is received within 10 days?
    A) The accounting entry would be a $2,100 debit to Cash, a $42 credit to Sales Discounts and a
       $2,058 credit to Accounts Receivable.
    B) The accounting entry would be a $2,100 debit to Cash and a $2,100 credit to Accounts
       Receivable.
    C) The accounting entry would be a $2,100 debit to Cash, a $40 credit to Sales Discounts and a
       $2,060 credit to Accounts Receivable.
    D) The accounting entry would be a $2,060 debit to Cash, a $40 debit to Sales Discounts and a
       $2,100 credit to Accounts Receivable.

15) Which of the following are shown on a multi-step income statement?
    A) Net sales revenue but not operating expenses
    B) Net sales revenue and cost of goods sold
    C) Interest revenue as part of net sales revenue
    D) Gross profit but not cost of goods sold

16) Which of the following is the common definition of “bottom line”?
    A) Ending owner’s capital on the statement of owner’s equity
    B) Net income on the income statement
    C) Total liabilities and owner’s equity on a balance sheet
    D) All of the above

17) Which of the following is the gross profit percentage?
    A) Gross profit times net sales revenue
    B) Gross profit minus net sales revenue
    C) Gross profit plus net sales revenue
    D) Gross profit divided by net sales revenue

18) Which of the following financial statements would include gross profit?
    A) Classified balance sheet
    B) Single-step income statement
    C) Multiple-step income statement
    D) Both B and C

19) Which of the following is subtracted from gross profit to arrive at operating income?
    A) Cost of goods sold
    B) Operating expenses
    C) Cost of goods available for sale
    D) Sales discounts and sales returns and allowances

20) Which of the following accounts are involved in the closing entries when a merchandising company
    uses the perpetual inventory system?
    A) Cost of Goods Sold, Sales Returns and Allowances, and Sales Discounts
    B) Gross Profit, Sales Returns and Allowances, and Sales Discounts
    C) Operating Income and Cost of Goods Sold
    D) Operating Expenses, Sales Revenue, and Gross Profit
21) Which of the following accounts are credited by the closing entries if a company is using the perpetual inventory system?

A) Sales Discounts, Sales Returns and Allowances, and Cost of Goods Sold
B) Sales Discounts and Sales Revenue
C) Sales Revenue and Cost of Goods Sold
D) Sales Returns and Allowances, Sales Revenue, and Inventory

22) Refer to Table 5.1. What is gross profit?

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

23) Refer to Table 5.1. What is operating income?

A) $160,000   B) $55,000   C) $40,000   D) $190,000

24) Refer to Table 5.1. What is net income?

A) $180,000   B) $60,000   C) $35,000   D) $45,000

25) Which of the following are the respective normal balances of Sales, Sales Discounts, and Sales Returns and Allowances?

A) Debit, Debit, and Credit   B) Credit, Debit, and Debit
C) Credit, Credit, and Debit   D) Debit, Credit, and Credit

26) A company receives an invoice that indicates the company — the buyer — must pay the transportation costs of delivering the merchandise. Which of the following will be noted as the delivery terms?

A) FOB destination   B) FOB 2/10 n/30
C) FOB shipping point   D) None of the above

27) Which of the following does "FOB Destination" mean?

A) The seller pays the transportation costs.   B) The buyer pays the transportation costs.
C) Both A and B are true   D) Neither A nor B are true.

28) A company that uses the perpetual inventory method purchases inventory of $1,000 on account with terms of 2/10 net/30. Which of the following entries would be made to record the payment for the inventory if the payment is made within 10 days?

A) The accounting entry would be a $1,000 debit to Accounts Payable and a $1,000 credit to Cash.
B) The accounting entry would be a $980 debit to Accounts Payable, a $20 debit to Inventory and a $1,000 credit to Cash.
C) The accounting entry would be a $20 debit to Inventory, a $1,000 debit to Accounts Payable and a $1,020 credit to Cash.
D) The accounting entry would be a $1,000 debit to Accounts Payable, a $20 credit to Inventory and a $980 credit to Cash.
29) A company purchased 100 units for $20 each on January 31. It purchased 100 units for $30 on February 28. It sold 150 units for $45 each from March 1 through December 31. If the company uses the LIFO inventory costing method, which of the following amounts will be the amount of inventory on the December 31 balance sheet?
A) $1,250  B) $2,250  C) $1,000  D) $1,500

30) Samson Company had the following balances and transactions during 2009.

Beginning inventory 10 units at $70
March 10 sold 8 units for $100
June 10 purchased 20 units at $80
October 30 sold 15 units for $100

What would the company's inventory amount be on the December 31, 2009 balance sheet if the perpetual FIFO costing method is used? (Answers are rounded to the nearest dollar.)
A) $560  B) $537  C) $490  D) $540  E) $554

31) Samson Company had the following balances and transactions during 2009.

Beginning inventory 10 units at $70
March 10 sold 8 units for $100
June 10 purchased 20 units at $80
October 30 sold 15 units for $100

What would the company's inventory amount be on the December 31, 2009 balance sheet if the perpetual LIFO costing method is used? (Answers are rounded to the nearest dollar.)
A) $560  B) $554  C) $540  D) $537  E) $490

32) Samson Company had the following balances and transactions during 2009.

Beginning inventory 10 units at $70
March 10 sold 8 units for $100
June 10 purchased 20 units at $80
October 30 sold 15 units for $100

What would the company's inventory amount be on the December 31, 2009 balance sheet if the perpetual average costing method is used? (Answers are rounded to the nearest dollar.)
A) $560  B) $537  C) $540  D) $554  E) $490

33) Samson Company had the following balances and transactions during 2009.

Beginning inventory 10 units at $70
March 10 sold 8 units for $100
June 10 purchased 20 units at $80
October 30 sold 15 units for $100

What would the company's inventory amount be on the December 31, 2009 balance sheet if the periodic average costing method is used? (Answers are rounded to the nearest dollar.)
A) $560  B) $490  C) $554  D) $540  E) $537
34) Which of the following inventory costing methods is often adopted when a company prefers a “middle of the road” approach, receiving moderate income tax benefits while retaining some financial statement benefits?
   A) Specific unit cost      B) Average cost
   C) Last in first out     D) First in first out

35) Which of the following principles require the application of the lower-of-cost-or-market rule?
   A) Accounting conservatism
   B) Materiality concept
   C) Disclosure principle
   D) Consistency principle

36) Which of the following amounts would be reported on the balance sheet if the cost of an item is $80, the current selling price is $100 and the current replacement cost is $75?
   A) $100
   B) The average of $75 and $80
   C) $75
   D) $80

37) On December 31 of the current year, the trial balance for a company reports the following amounts:
   Cost of goods available for sale     $1,074,450
   Ending inventory (FIFO)              85,430
   Replacement cost of ending inventory 91,730

   What amount must be reported for cost of goods sold on the income statement?
   A) $989,020      B) $982,720      C) $897,290      D) $1,074,450

38) Williams Company had the following balances and transactions during 2009.
   Beginning inventory                10 units at $70
   June 10                              purchased 20 units at $80
   December 30                          sold 15 units for $100
   December 31                          replacement cost $60

   What would the company's inventory amount be on the December 31, 2009 balance sheet if the perpetual FIFO method is used? (Answers are rounded to the nearest dollar.)
   A) $1,200      B) $900      C) $1,100      D) $1,050

39) Williams Company had the following balances and transactions during 2009.
   Beginning inventory                10 units at $70
   June 10                              purchased 20 units at $80
   December 30                          sold 15 units for $100
   December 31                          replacement cost $60

   What would the company's inventory amount be on the December 31, 2009 balance sheet if the perpetual average costing method is used? (Answers are rounded to the nearest dollar.)
   A) $1,150      B) $1,200      C) $1,050      D) $900

40) Under which of the following inventory costing methods is the cost of goods sold based on the cost of the oldest purchases?
   A) Specific unit cost
   B) Average cost
   C) Last in first out
   D) First in first out
41) Under which of the following inventory costing methods is ending inventory based on the cost of the oldest purchases?
   A) Specific unit cost  B) Average cost  C) Last in first out  D) First in first out

42) Under which of the following inventory costing methods is ending inventory based on the cost of the most recent purchases?
   A) Specific unit cost  B) Average cost  C) Last in first out  D) First in first out

43) Williams Company had the following balances and transactions during 2009.

   Beginning inventory  10 units at $70
   June 10  purchased 20 units at $80
   December 30  sold 15 units for $100
   December 31  replacement cost $60

What would the company's inventory amount be on the December 31, 2009 balance sheet if the perpetual LIFO method is used? (Answers are rounded to the nearest dollar.)
   A) $1,100  B) $1,050  C) $1,200  D) $900

44) The accountant for a company determines that the 20 units of inventory on hand at the end of the year should be recorded at their cost of $5.00, each using FIFO. Current replacement cost is $4.50. What amount would be reported as inventory on the balance sheet?
   A) $5.00  B) $4.50  C) $100.00  D) $90.00

45) Which of the following assets is generally reported at the lower of cost or market?
   A) Accounts receivable  B) Prepaid insurance  C) Inventory  D) Cash

46) Which of the following is the most popular inventory costing method in the United States?
   A) Specific unit cost  B) Average cost  C) Last in first out  D) First in first out

47) Which of the following states that the business should use the same accounting methods from period to period?
   A) Disclosure principle  B) Materiality concept  C) Accounting conservatism  D) Consistency principle

48) Samson Company had the following balances and transactions during 2009.

   Beginning inventory  10 units at $70
   March 10  sold 8 units for $100
   June 10  purchased 20 units at $80
   October 30  sold 15 units for $100

What would the company's inventory amount be on the December 31, 2009 balance sheet if the periodic LIFO costing method is used? (Answers are rounded to the nearest dollar.)
   A) $540  B) $490  C) $537  D) $554  E) $560
49) Samson Company had the following balances and transactions during 2009.

<table>
<thead>
<tr>
<th>Date</th>
<th>Event</th>
</tr>
</thead>
<tbody>
<tr>
<td>Beginning</td>
<td>inventory 10 units at $70</td>
</tr>
<tr>
<td>March 10</td>
<td>sold 8 units for $100</td>
</tr>
<tr>
<td>June 10</td>
<td>purchased 20 units at $80</td>
</tr>
<tr>
<td>October 30</td>
<td>sold 15 units for $100</td>
</tr>
</tbody>
</table>

What would the company's inventory amount be on the December 31, 2009 balance sheet if the periodic FIFO costing method is used? (Answers are rounded to the nearest dollar.)

A) $554  B) $560  C) $490  D) $537  E) $540

50) A company purchased 100 units for $20 each on January 31. It purchased 100 units for $30 on February 28. It sold 150 units for $45 each from March 1 through December 31. If the company uses the FIFO inventory costing method, which of the following amounts will be the amount of cost of goods sold on the December 31 income statement?

A) $3,500  B) $4,000  C) $3,750  D) $6,750

51) Where do inputs for the accounting system originate?

A) Software  B) Source documents  C) Hardware  D) Journal entries

52) Which of the following transactions is entered in the sales journal?

A) A sale of merchandise for cash  
B) The return of merchandise purchased for cash  
C) A sale of merchandise on account  
D) The return of merchandise purchased on account

53) Which of the following is the ledger containing the customers' individual accounts?

A) The payroll ledger  B) The general ledger  
C) The accounts payable ledger  D) The accounts receivable ledger

54) In which journal would the receipt of the proceeds from a note receivable (including accrued interest) be recorded?

A) The cash payments journal  
B) The purchases journal  
C) The general journal  
D) The cash receipts journal  
E) The sales journal

55) In which journal would the sale of merchandise for cash be recorded?

A) The cash receipts journal  
B) The general journal  
C) The purchases journal  
D) The cash payments journal  
E) The sales journal
56) In which journal would the purchase of merchandise on account be recorded?
   A) The sales journal
   B) The cash payments journal
   C) The purchases journal
   D) The cash receipts journal
   E) The general journal

57) In which journal would a payment for merchandise purchased on account be recorded?
   A) The purchases journal
   B) The general journal
   C) The cash receipts journal
   D) The cash payments journal
   E) The sales journal

58) In which journal would a return of merchandise purchased on account be recorded?
   A) The sales journal
   B) The purchases journal
   C) The general journal
   D) The cash receipts journal
   E) The cash payments journal

59) When should the individual amounts in the Cash Payments journal be posted to the Accounts Payable Ledger?
   A) Weekly
   B) Daily
   C) Annually
   D) Monthly

60) When should the total in the Accounts Payable column in the Cash Payments journal be posted to the General Journal?
   A) Daily
   B) Annually
   C) Monthly
   D) Weekly

61) Which of the following describes the internal control procedure "competent, reliable and ethical personnel"?
   A) A company must train and supervise high-quality employees.
   B) External auditors monitor internal controls.
   C) The information system is critical.
   D) A company purchases burglary alarms.

62) Which of the following describes the internal control procedure "separation of duties"?
   A) Cashiers must not have access to accounting records.
   B) The information system is critical.
   C) External auditors will monitor internal controls.
   D) Prenumber invoices and other documents.

63) Which of the following are employees of the business?
   A) IRS auditors
   B) External auditors
   C) Insurance auditors
   D) Internal auditors

64) A security guard at a Wal-Mart costs about $28,000 a year. On average, each guard prevents about $50,000 of theft. Which of the following internal control concepts does this illustrate?
   A) Cost/benefit relationship
   B) Proper authorization
   C) Separation of duties
   D) Competent, reliable, and ethical personnel
65) The bank collected a note receivable of $1,000. How would this information be included on the bank reconciliation?  
   A) A deduction on the book side  
   B) An addition on the bank side  
   C) A deduction on the bank side  
   D) An addition on the book side

66) A check of $75 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 book side  
   B) An addition on the bank side  
   C) An addition on the book side  
   D) A deduction on the bank side

67) The following information is available for Matts Unlimited Company for the current month. What is the adjusted book balance on the bank reconciliation?  

<table>
<thead>
<tr>
<th>Book balance — end of the month</th>
<th>$5,575</th>
</tr>
</thead>
<tbody>
<tr>
<td>Outstanding checks</td>
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</tr>
<tr>
<td>Deposits in transit</td>
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</tr>
<tr>
<td>Service charges</td>
<td>75</td>
</tr>
<tr>
<td>Interest revenue</td>
<td>25</td>
</tr>
<tr>
<td>A) $5,550</td>
<td>B) $5,525</td>
</tr>
<tr>
<td>C) $5,500</td>
<td>D) $7,466</td>
</tr>
</tbody>
</table>

68) A company received a bank statement showing a balance of $62,300. Reconciling items were outstanding checks of $1,450 and a deposit in transit of $8,500. What is the company’s adjusted bank balance?  

A) $72,250  
B) $69,350  
C) $70,850  
D) $60,850

69) Which of the following would be included in a journal to record an ns check?  

A) A debit to miscellaneous expense and a credit to cash  
B) A debit to accounts payable and a credit to cash  
C) A debit to cash and a credit to accounts receivable  
D) A debit to accounts receivable and a credit to cash

70) Where is the cash account included on the balance sheet?  

A) As current revenue  
B) As a current asset  
C) As a current expense  
D) As a current liability

71) Which of the following is a fund containing a small amount of cash that is used to pay for minor expenditures?  

A) A petty cash fund  
B) An expenditure fund  
C) An expense fund  
D) A cash payments fund

72) Which of the following would be included in the entry to record the replenishment of a petty cash fund?  

A) A credit to cash in bank  
B) A debit to petty cash  
C) A credit to various expenses and assets  
D) A debit to cash in bank

73) A petty cash fund was established with a $250 balance. It currently has cash of $31 and petty cash tickets totaling $219. Which of the following would be included in the entry to replenish the fund?  

A) Debits to various expenses for $219  
B) A debit to petty cash for $219  
C) A credit to cash in bank for $250  
D) A credit to petty cash for $219
74) A petty cash fund was established with a $200 balance. The fund currently has cash of $32. It also has petty cash tickets for the following items. Which of the following entries would be the correct entry to replenish the fund?

Office supplies $54  
Delivery expense 114

A) Office supplies  54  
Delivery expense  114  
Cash in bank  168 
B) Miscellaneous expense  168  
Cash in bank  168 
C) Petty cash  168  
Cash in bank  168 
D) Cash in bank  168  
Petty cash  168

75) Petty cash is accounted for by maintaining a constant balance in the petty cash account, supported by the fund (cash plus payment tickets) totaling the same amount. Which of the following is this type of system?

A) A voucher system  
B) A control system  
C) A balanced system  
D) An imprest system

76) Which of the following is TRUE of a bank reconciliation?

A) A bank reconciliation should not be prepared by an employee who handles cash transactions.  
B) A bank reconciliation is part of a sound internal control system.  
C) A bank reconciliation is a formal financial statement.  
D) Both A and B are true statements.

77) Which of the following is the entry to establish a petty cash account?

A) Miscellaneous Expense  
Cash in Bank  
B) Cash in Bank  
Petty Cash  
C) Petty cash  
Cash in Bank  
D) Miscellaneous Expense  
Petty Cash

78) A company received a bank statement with a balance of $5,350. Reconciling items included a bookkeeper error of $200 (a $300 check recorded as $500), two outstanding checks totaling $720, a service charge of $15, a deposit in transit of $180, and interest revenue of $21. What is the adjusted balance?

A) $4,636  
B) $5,016  
C) $4,810  
D) $4,610

79) In which journal would the purchase of merchandise for cash be recorded?

A) The general journal  
B) The purchases journal  
C) The sales journal  
D) The cash payments journal  
E) The cash receipts journal
80) In which journal would a loan from the bank be recorded?

A) The cash payments journal
B) The general journal
C) The sales journal
D) The purchases journal
E) The cash receipts journal