

1. 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. has tax advantages over a proprietorship or partnership.

2. Most business enterprises in the United States are
 - a. proprietorships and partnerships.
 - b. partnerships.
 - c. corporations.
 - d. government units.

3. Which of the following is an advantage of corporations relative to partnerships and sole proprietorships?
 - a. Reduced legal liability for investors.
 - b. Harder to transfer ownership.
 - c. Lower taxes.
 - d. Most common form of organization.

4. Borrowing money is an example of a(n)
 - a. delivering activity.
 - b. financing activity.
 - c. investing activity.
 - d. operating activity.

5. Net income results when
 - a. $\text{Assets} > \text{Liabilities}$.
 - b. $\text{Revenues} = \text{Expenses}$.
 - c. $\text{Revenues} > \text{Expenses}$.
 - d. $\text{Revenues} < \text{Expenses}$.

6. Retained earnings at the end of the period is equal to
 - a. retained earnings at the beginning of the period plus net income minus liabilities.
 - b. retained earnings at the beginning of the period plus net income minus dividends.
 - c. net income.
 - d. assets plus liabilities.

7. Relevant accounting information
 - a. is information that has been audited.
 - b. must be reported within the operating cycle or one year, whichever is longer.
 - c. has been objectively determined.
 - d. is information that is capable of making a difference in a business decision.

8. An item is considered material if
- it costs a lot of money.
 - it is of a tangible nature.
 - it is likely to influence the decision of an investor or creditor.
 - the cost of reporting the item is greater than its benefits.
9. Which of the following items has no effect on retained earnings?
- Expense
 - Dividends
 - Land purchase
 - Revenue
10. A debit to an asset account indicates a(n)
- error.
 - credit was made to a liability account.
 - decrease in the asset.
 - increase in the asset.
11. Which accounts normally have credit balances?
- Revenues, liabilities, and dividends.
 - Revenues, liabilities, and assets.
 - Revenues, liabilities, and retained earnings.
 - Revenues, liabilities, and expenses.
12. The unearned revenue account is classified as a(n)
- asset.
 - revenue.
 - expense.
 - liability.
13. Which of the following is an asset?
- Service revenue
 - Notes payable
 - Supplies expense
 - Prepaid rent
14. The matching principle matches
- customers with businesses.
 - expenses with revenues.
 - assets with liabilities.
 - creditors with businesses.
15. A company spends \$20 million dollars for an office building. Over what period should the cost be written off?
- When the \$20 million is expended in cash
 - All in the first year
 - Over the useful life of the building
 - After \$20 million in revenue is earned

16. Accounts often need to be adjusted because
- there are never enough accounts to record all the transactions.
 - many transactions affect more than one time period.
 - there are always errors made in recording transactions.
 - management can't decide what they want to report.
17. At the end of the fiscal year, the usual adjusting entry for depreciation on equipment was omitted. Which of the following statements is true?
- Net income will be overstated for the current year.
 - Total assets will be understated at the end of the current year.
 - The balance sheet and income statement will be misstated but the Retained Earnings statement will be correct for the current year.
 - Total assets will be understated at the end of the current year.
18. The difference between the cost of a depreciable asset and its related accumulated depreciation is referred to as the
- market value of the asset.
 - blue book value of the asset.
 - book value of the asset.
 - depreciated difference of the asset.

Use the information below from the Income Statement of the Dirt Poor Laundry Service to answer the following question(s).

Revenues	
Laundry Service Revenues	\$ 3,500
Expenses	
Wages expense	\$ 950
Advertising expense	500
Rent expense	300
Supplies expense	200
Insurance expense	<u>100</u>
Total expenses	<u>2,050</u>
Net Income	\$ 1,450

19. The entry to close the Laundry Service Revenue account includes a
- debit to Laundry Service Revenue for \$3,500.
 - credit to Laundry Service Revenue for \$3,500.
 - debit to Income Summary for \$3,500.
 - debit to Retained Earnings for \$3,500.
20. The entry to close the expense accounts includes a
- credit to Income Summary for \$2,050.
 - debit to Income Summary for \$2,050.
 - debit to Wages Expense for \$950.
 - credit to Retained Earnings for \$2,050.

21. The entry to close the Income Summary includes a
- credit to Income Summary for \$1,450.
 - debit to Income Summary for \$1,450.
 - debit to Retained Earnings for \$1,450.
 - credit to Common Stock for \$1,450.
22. Under a perpetual inventory system, acquisition of merchandise for resale is debited to
- the Merchandise Inventory account.
 - the Purchases account.
 - the Supplies account.
 - the Cost of Goods Sold account.
23. If a purchaser using a perpetual inventory system pays the transportation costs, then the
- Merchandise Inventory account is increased.
 - Merchandise Inventory account is not affected.
 - Freight-out account is increased.
 - Delivery Expense account is increased.
24. Stanton Company purchased merchandise with an invoice price of \$2,000 and credit terms of 1/10, n/30. Assuming a 360 day year, what is the implied annual interest rate inherent in the credit terms?
- 2%
 - 12%
 - 18%
 - 36%
25. The credit terms offered to a customer by a business firm were 2/10, n/30, which means
- 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 30th 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.
26. If a company has net sales of \$500,000 and cost of goods sold of \$350,000, the gross profit rate is
- 70%.
 - 30%.
 - 15%.
 - 100%.
27. The Freight-in account
- increases the cost of merchandise purchased.
 - is contra to the Purchases account.
 - is a permanent account.
 - has a normal credit balance.

28. If goods in transit are shipped FOB destination
- the seller has legal title to the goods until they are delivered.
 - the buyer has legal title to the goods until they are delivered.
 - the transportation company has legal title to the goods while the goods are in transit.
 - no one has legal title to the goods until they are delivered.
29. Goods held on consignment are
- never owned by the consignee.
 - included in the consignee's ending inventory.
 - kept for sale on the premises of the consignor.
 - included a part of no one's ending inventory.
30. Which of the following terms best describes the assumption made in applying the four inventory methods.
- Goods flow
 - Cost flow
 - Asset flow
 - Physical flow
31. A problem with the specific identification method is that
- inventories can be reported at actual costs.
 - management can manipulate income.
 - matching is not achieved.
 - the lower of cost or market basis cannot be applied.
32. In a period of rising prices, which of the following inventory methods generally results in the lowest net income figure?
- Average Cost Method
 - LIFO method
 - FIFO method
 - Need more information to answer
33. The lower of cost or market basis of valuing inventories is an example of
- comparability.
 - the cost principle.
 - conservatism.
 - consistency.
34. The situation that requires a departure from the cost basis of accounting to the lower of cost or market basis in valuing inventory is necessitate by
- a decline in the value of the inventory.
 - an increase in selling price.
 - an increase in the value of the inventory.
 - a desire for more profit.

35. A consequence of separation of duties is that
- theft by employees becomes impossible.
 - operations become extremely inefficient because of constant training of employees.
 - more employees will need to be bonded.
 - theft is possible only when several employees are involved.
36. A system of internal control
- is infallible.
 - can be rendered ineffective by employee collusion.
 - invariably will have costs exceeding benefits.
 - is premised on the concept of absolute assurance.
37. Which of the following is an appropriate internal control activity or cash?
- Recording keeping and custodianship over cash should be performed by the same person.
 - Banking facilities should be used as little as possible.
 - All payments should be made with currency, not checks.
 - The amount of cash on hand should be kept to a minimum.
38. Which one of the following would not cause a bank to debit a depositor's account?
- Bank service charge
 - Collection of a note receivable
 - Wiring of funds to other locations
 - Checks marked NSF
39. Which of the following would be added to the balance per books on a bank reconciliation?
- Outstanding checks
 - Deposits in transit
 - Notes collected by the bank
 - NSF check
40. For which of the following errors should the appropriate amount be subtracted from the balance per bank on a bank reconciliation?
- Check for \$43 recorded as \$34
 - Deposit of \$500 recorded by bank as \$50
 - A returned \$200 check recorded by bank as \$20
 - Check for \$35 recorded as \$53
41. An adjusting entry is not required for
- outstanding checks.
 - collection of a note by the bank.
 - NSF checks.
 - bank service charges.
42. The entry to replenish a petty cash fund includes a credit to
- Petty Cash.
 - Cash.
 - Freight-in.
 - Postage Expense.

43. A petty cash fund of \$100 is replenished when the fund contains \$5 in cash and receipts for \$93. The entry to replenish the fund would
- credit Cash Over and Short for \$2.
 - credit Miscellaneous Revenue for \$2.
 - debit Cash Over and Short for \$2.
 - debit Miscellaneous Expense for \$2.
44. Entries are made to the Petty Cash account when
- establishing the fund.
 - making payments out of the fund.
 - recording shortages in the fund.
 - replenishing the fund.
45. Under the allowance method, writing off an uncollectible account
- affects only balance sheet accounts.
 - affects both balance sheet and income statement accounts.
 - affects only income statement accounts.
 - is not acceptable practice.
46. When an account becomes uncollectible and must be written off
- Allowance for Doubtful Accounts should be credited.
 - Accounts Receivable should be credited.
 - Bad Debts Expense should be credited.
 - Sales should be debited.
47. Under the direct write-off method of accounting for uncollectible accounts, Bad Debts Expense is debited
- when a credit sale is past due.
 - at the end of each accounting period.
 - whenever a pre-determined amount of credit sales have been made.
 - when an account is determined to be uncollectible.
48. The allowance method of accounting for uncollectible accounts is required if
- the company makes any credit sales.
 - bad debts are significant in amount.
 - the company is a retailer.
 - the company charges interest on accounts receivable.
49. Which of the following is not true regarding a promissory note?
- Promissory notes may not be transferred to another party by endorsement.
 - Promissory notes may be sold to another party.
 - Promissory notes give a stronger legal claim to the holder than accounts receivable.
 - Promissory notes may be bearer notes and not specifically identify the payee by name.

-
50. The sale or transfer of accounts receivable in order to raise funds is called
- pledging.
 - factoring.
 - leasing.
 - collateralizing.
51. When customers make purchases with a national credit card, the retailer
- is responsible for maintaining customer accounts.
 - is not involved in the collection process.
 - absorbs any losses from uncollectible accounts.
 - receives cash equal to the full price of the merchandise sold from the credit card company.
52. On April 5 Sally's Boutique accepted a VISA card for a \$400 purchase. VISA charges a 2% service fee. The entry to record this transaction would include a
- credit to Cash of \$392.
 - debit to Cash of \$400.
 - debit to Service Charge Expense of \$8.
 - credit to Service Charge Expense of \$8.
53. The retailer considers VISA and MasterCard sales as
- cash sales.
 - promissory sales.
 - credit sales.
 - contingent sales.

ANSWERS

Chpt

1	1	c	MChoice
1	2	a	MChoice
1	3	a	MChoice
1	4	b	MChoice
1	5	c	MChoice
1	6	b	MChoice
2	7	d	MChoice
2	8	c	MChoice
3	9	c	MChoice
3	10	d	MChoice
3	11	c	MChoice
3	12	d	MChoice
3	13	d	MChoice
4	14	b	MChoice
4	15	c	MChoice
4	16	b	MChoice
4	17	a	MChoice
4	18	c	MChoice
4	19	a	MChoice
4	20	b	MChoice
4	21	b	MChoice
5	22	a	MChoice
5	23	a	MChoice
5	24	c	MChoice
5	25	c	MChoice
5	26	b	MChoice
6	27	a	MChoice
6	28	a	MChoice
6	29	a	MChoice
6	30	b	MChoice
6	31	b	MChoice
6	32	b	MChoice
6	33	c	MChoice
6	34	a	MChoice
7	35	d	MChoice
7	36	b	MChoice
7	37	d	MChoice
7	38	b	MChoice
7	39	c	MChoice
7	40	c	MChoice
7	41	a	MChoice
7	42	b	MChoice
7	43	c	MChoice
7	44	a	MChoice

- 8 45 a MChoice
- 8 46 b MChoice
- 8 47 d MChoice
- 8 48 b MChoice
- 8 49 a MChoice
- 8 50 b MChoice
- 8 51 b MChoice
- 8 52 c MChoice
- 8 53 a MChoice

