

1. A company purchased land for \$72,000 cash. Real estate brokers' commission was \$5,000 and \$7,000 was spent for demolishing an old building on the land before construction of a new building could start. Under the cost principle, the cost of land would be recorded at
 - a. \$79,000.
 - b. \$72,000.
 - c. \$77,000.
 - d. \$84,000.

2. Which of the following assets does not decline in service potential over the course of its useful life?
 - a. Equipment
 - b. Furnishings
 - c. Land
 - d. Fixtures

3. Topper Clinic purchases land for \$95,000 cash. The Clinic assumes \$1,500 in property taxes due on the land. The title and attorney fees totaled \$1,000. The clinic has the land graded for \$2,200. What amount does Topper Clinic record as the cost for the land?
 - a. \$97,200
 - b. \$95,000
 - c. \$99,700
 - d. \$97,500

4. Interest may be included in the acquisition cost of a plant asset
 - a. during the construction period of a self-constructed asset.
 - b. if the asset is purchased on credit.
 - c. if the asset acquisition is financed by a long-term note payable.
 - d. if it is a part of a lump-sum purchase.

5. The book value of an asset is equal to the
 - a. asset's market value less its historical cost.
 - b. blue book value relied on by secondary markets.
 - c. replacement cost of the asset.
 - d. asset's cost less accumulated depreciation.

6. Depreciation is a process of
 - a. asset devaluation.
 - b. cost accumulation.
 - c. cost allocation.
 - d. asset valuation.

7. Equipment was purchased for \$17,000. Freight charges amounted to \$700 and there was a cost of \$2,000 for building a foundation and installing the equipment. It is estimated that the equipment will have a \$3,000 salvage value at the end of its 5-year useful life. Depreciation expense each year using the straight-line method will be
- \$3,940.
 - \$3,340.
 - \$2,860.
 - \$2,800.
8. A change in the estimated useful life of equipment requires
- a retroactive change in the amount of periodic depreciation recognized in previous years.
 - that no change be made in the periodic depreciation so that depreciation amounts are comparable over the life of the asset.
 - that the amount of periodic depreciation be changed in the current year and in future years.
 - that income for the current year be increased.
9. Expenditures that maintain the operating efficiency and expected productive life of a plant asset are generally
- expensed when incurred.
 - capitalized as a part of the cost of the asset.
 - debited to the Accumulated Depreciation account.
 - not recorded until they become material in amount.
10. A gain or loss on disposal of a plant asset is determined by comparing the
- replacement cost of the asset with the asset's original cost.
 - book value of the asset with the asset's original cost.
 - original cost of the asset with the proceeds received from its sale.
 - book value of the asset with the proceeds received from its sale.
11. A truck that cost \$12,000 and on which \$10,000 of accumulated depreciation has been recorded was disposed of for \$3,000 cash. The entry to record this event would include a
- gain of \$1,000.
 - loss of \$1,000.
 - credit to Truck account for \$3,000.
 - credit to Accumulated Depreciation for \$10,000.
12. The cost of successfully defending a patent in an infringement suit should be
- charged to Legal Expenses.
 - deducted from the book value of the patent.
 - added to the cost of the patent.
 - recognized as a loss in the current period.

13. An asset that cannot be sold individually in the market place is
- a. a patent.
 - b. goodwill.
 - c. a copyright.
 - d. a trade name.
14. In recording the acquisition cost of an entire business
- a. goodwill is recorded as the excess of cost over the fair value of identifiable net assets.
 - b. assets are recorded at the seller's book values.
 - c. goodwill, if it exists, is never recorded.
 - d. goodwill is recorded as the excess of cost over the book value of identifiable net assets.

Use the information below for the following question(s).

Great Company purchased a new van for floral deliveries on January 1, 2003. The van cost \$20,000 with an estimated life of 4 years and \$4,000 salvage value at the end of its useful life. The double-declining-balance method of depreciation will be used.

15. What is the depreciation expense for 2003?
- a. \$4,000.
 - b. \$5,000.
 - c. \$8,000.
 - d. \$10,000.
16. What is the balance of the Accumulated Depreciation account at the end of 2004?
- a. \$5,000.
 - b. \$12,000.
 - c. \$15,000.
 - d. \$8,000.
17. Liabilities are classified on the balance sheet as current or
- a. deferred.
 - b. unearned.
 - c. long-term.
 - d. accrued.

Use the information below for the following question(s).

Moss County Bank agrees to lend the Blackwood Brick Company \$100,000 on January 1. Blackwood Brick Company signs a \$100,000, 6%, 9-month note.

18. The entry made by Blackwood Brick Company on January 1 to record the proceeds and issuance of the note is

- a. Interest Expense 4,500
Cash 95,500
Notes Payable 100,000
- b. Cash 100,000
Notes Payable 100,000
- c. Cash 100,000
Interest Expense 4,500
Notes Payable 104,500
- d. Cash 100,000
Interest Expense 4,500
Notes Payable 100,000
Interest Payable 4,500

19. What is the adjusting entry required if Blackwood Brick Company prepares financial statements on June 30?

- a. Interest Expense 3,000
Interest Payable 3,000
- b. Interest Expense 3,000
Cash 3,000
- c. Interest Payable 3,000
Cash 3,000
- d. Interest Payable 3,000
Interest Expense 3,000

20. What entry will Blackwood Brick Company make to pay off the note and interest at maturity assuming that interest has been accrued to September 30?

- a. Notes Payable 104,500
Cash 104,500
- b. Notes Payable 100,000
Interest Payable 4,500
Cash 104,500
- c. Interest Expense 4,500
Notes Payable 100,000
Cash 104,500
- d. Interest Payable 3,000
Notes Payable 100,000
Interest Expense 1,500
Cash 104,500

21. Interest expense on an interest-bearing note is

- a. always equal to zero.
- b. accrued over the life of the note.
- c. only recorded at the time the note is issued.
- d. only recorded at maturity when the note is paid.

22. A company receives \$99, of which \$9 is for sales tax. The journal entry to record the sale would include a
- debit to Sales Tax Expense for \$9.
 - credit to Sales Tax Payable for \$9.
 - debit to Sales for \$99.
 - debit to Cash for \$90.
23. A retailer that collects sales taxes is acting as an agent for the
- wholesaler.
 - customer.
 - taxing authority.
 - chamber of commerce.

 Use the information below to answer the following question(s).

The following totals for the month of April were taken from the payroll register of Main Company.

Salaries	\$ 12,000
Fica taxes withheld	550
Income taxes withheld	2,500
Medical insurance deductions	450
Federal Unemployment Taxes	32
State Unemployment Taxes	216

24. The journal entry to record the monthly payroll on April 30 would include a
- debit to Salaries Expense for \$12,000.
 - credit to Salaries Payable for \$12,000.
 - debit to Salaries Payable for \$12,000.
 - debit to Salaries Expense for \$8,500.
25. The entry to record the payment of net payroll would include a
- debit to Salaries Payable for \$8,252.
 - debit to Salaries Payable for \$8,500.
 - debit to Salaries Payable for \$7,950.
 - credit to Cash for \$9,050.
26. The entry to record accrual of employer's payroll taxes would include a
- debit to Payroll Tax Expense for \$248.
 - debit to Payroll Tax Expense for \$798.
 - credit to Fica Taxes Payable for \$1,100.
 - credit to Payroll Tax Expense for \$248.
27. The entry to record the accrual of federal unemployment tax would include a
- credit to Federal Unemployment Taxes Payable for \$32.
 - debit to Federal Unemployment Taxes Expense for \$32.
 - credit to Payroll Tax Expense for \$32.
 - debit to Federal Unemployment Taxes Payable for \$32.

28. From the standpoint of the issuing company, a disadvantage of using bonds as a means of long-term financing is that
- bond interest is deductible for tax purposes.
 - interest must be paid on a periodic basis regardless of earnings.
 - income to stockholders may increase as a result of trading on the equity.
 - the bondholders do not have voting rights.
29. Bonds that may be exchanged for common stock at the option of the bondholders are called
- options.
 - stock bonds.
 - convertible bonds.
 - callable bonds.
30. The contractual rate of interest is usually stated as a(n)
- monthly rate.
 - daily rate.
 - semiannual rate.
 - annual rate.
31. A bond with a face value of \$100,000 and a quoted price of 103 1/4 has a selling price of
- \$130,325.
 - \$103,025.
 - \$100,325.
 - \$103,250.
32. If the market rate of interest is greater than the contractual rate of interest, bonds will sell
- at a premium.
 - at face value.
 - at a discount.
 - only after the stated rate of interest is increased.
33. A corporation issues \$100,000, 10%, 5-year bonds on January 1, 2001, for \$95,800. Interest is paid semiannually on January 1 and July 1. If the corporation uses the straight-line method of amortization of bond discount, the amount of bond interest expense to be recognized on July 1, 2001, is
- \$10,420.
 - \$5,000.
 - \$5,420.
 - \$4,580.

34. The present value of a \$10,000, 5-year bond, will be less than \$10,000 if the
- contractual rate of interest is less than the market rate of interest.
 - contractual rate of interest is greater than the market rate of interest.
 - bond is convertible.
 - contractual rate of interest is equal to the market rate of interest.
35. The carrying value of bonds will equal the market price
- at the close of every trading day.
 - at the end of the fiscal period.
 - on the date of issuance.
 - every six months on the date interest is paid.
36. Stockholders of a corporation directly elect
- the president of the corporation.
 - the board of directors.
 - the treasurer of the corporation.
 - all of the employees of the corporation.
37. Which one of the following would not be considered an advantage of the corporate form of organization?
- Limited liability of stockholders
 - Separate legal existence
 - Continuous life
 - Government regulation
38. Allen Sutton has invested \$600,000 in a privately held family corporation. The corporation does not do well and must declare bankruptcy. What amount does Sutton stand to lose?
- Up to his total investment of \$600,000
 - Zero
 - The \$600,000 plus any personal assets the creditors demand
 - \$400,000
39. The ability of a corporation to obtain capital is
- enhanced because of limited liability and ease of share transferability.
 - less than a partnership.
 - restricted because of the limited life of the corporation.
 - about the same as a partnership.
40. If no-par stock is issued without a stated value, then
- the par value is automatically \$1 per share.
 - the entire proceeds are considered to be legal capital.
 - there is no legal capital.
 - the corporation is automatically in violation of its state charter.

41. Par value
- represents what a share of stock is worth.
 - represents the original selling price for a share of stock.
 - is established for a share of stock after it is issued.
 - is the value assigned per share in the corporate charter.
42. The term legal capital is a descriptive term for
- stockholders' equity.
 - par value.
 - residual equity.
 - market value.
43. The amount of stock that may be issued according to the corporation's charter is referred to as the
- authorized stock.
 - issued stock.
 - unissued stock.
 - outstanding stock.
44. If common stock is issued for an amount greater than par value, the excess should be credited to
- Cash.
 - Retained Earnings.
 - Paid-in Capital in Excess of Par Value.
 - Legal Capital.
45. The acquisition of treasury stock by a corporation
- increases its total assets and total stockholders' equity.
 - decreases its total assets and total stockholders' equity.
 - has no effect on total assets and total stockholders' equity.
 - requires that a gain or loss be recognized on the income statement.
46. Treasury Stock is a(n)
- contra asset account.
 - retained earnings account.
 - asset account.
 - contra stockholders' equity account.

Use the information below for the following question(s).

The Ice Corporation issues 10,000 shares of \$50 par value preferred stock for cash at \$60 per share.

47. The entry to record the transaction will consist of a debit to Cash for \$600,000 and a credit or credits to
- Preferred Stock for \$600,000.
 - Preferred Stock for \$500,000 and Paid-in Capital in Excess of Par Value-Preferred Stock for \$100,000.
 - Preferred Stock for \$500,000 and Retained Earnings for \$100,000.
 - Paid-in Capital from Preferred Stock for \$600,000.

48. In the stockholders' equity section, the effects of the transaction above will be reported
- entirely within the capital stock section.
 - entirely within the additional paid-in capital section.
 - under both the capital stock and additional paid-in capital sections.
 - entirely under the retained earnings section.
49. The date on which a cash dividend becomes a binding legal obligation is on the
- declaration date.
 - date of record.
 - payment date.
 - last day of the fiscal year end.
50. The cumulative effect of the declaration and payment of a cash dividend on a company's financial statements is to
- decrease total liabilities and stockholders' equity.
 - increase total expenses and total liabilities.
 - increase total assets and stockholders' equity.
 - decrease total assets and stockholders' equity.
51. Which of the following statements is not true about a 2-for-1 split?
- Par value per share is reduced to half of what it was before the split.
 - Total contributed capital increases.
 - The market price probably will decrease.
 - A stockholder with ten shares before the split owns twenty shares after the split.
52. The statement of cash flows
- must be prepared on a daily basis.
 - summarizes the operating, financing, and investing activities of an entity.
 - is another name for the income statement.
 - is a special section of the income statement.
53. Financing activities involve
- lending money.
 - acquiring investments.
 - issuing debt.
 - acquiring long-lived assets.
54. Investing activities include
- collecting cash on loans made.
 - obtaining cash from creditors.
 - obtaining capital from owners.
 - repaying money previously borrowed.

55. The category that is generally considered to be the best measure of a company's ability to continue as a going concern is
- cash flows from operating activities.
 - cash flows from investing activities.
 - cash flows from financing activities.
 - usually different from year to year.

Use the information below for the following question(s).

Garden Corporation engaged in the following transactions. For each transaction, indicate where, if at all, it would be classified on the statement of cash flows. Assume the indirect method is used.

56. Declared and issued a stock dividend.
- Operating activities section
 - Investing activities section
 - Financing activities section
 - Does not represent a cash flow
57. Collected accounts receivable.
- Operating activities section
 - Investing activities section
 - Financing activities section
 - Does not represent a cash flow
58. Purchased inventory with cash.
- Operating activities section
 - Investing activities section
 - Financing activities section
 - Does not represent a cash flow
59. Retired long-term debt with cash.
- Operating activities section
 - Investing activities section
 - Financing activities section
 - Does not represent a cash flow
60. Paid interest on note.
- Operating activities section
 - Investing activities section
 - Financing activities section
 - Does not represent a cash flow
61. Issued stock for equipment.
- Operating activities section
 - Investing activities section
 - Financing activities section
 - Does not represent a cash flow

62. Received dividends on securities held.
- a. Operating activities section
 - b. Investing activities section
 - c. Financing activities section
 - d. Does not represent a cash flow
63. Paid income taxes.
- a. Operating activities section
 - b. Investing activities section
 - c. Financing activities section
 - d. Does not represent a cash flow
64. Issued common stock for cash.
- a. Operating activities section
 - b. Investing activities section
 - c. Financing activities section
 - d. Does not represent a cash flow
65. Purchased land for cash.
- a. Operating activities section
 - b. Investing activities section
 - c. Financing activities section
 - d. Does not represent a cash flow
66. Purchased land and building with a mortgage.
- a. Operating activities section
 - b. Investing activities section
 - c. Financing activities section
 - d. Does not represent a cash flow
67. Purchased treasury stock with cash.
- a. Operating activities section
 - b. Investing activities section
 - c. Financing activities section
 - d. Does not represent a cash flow

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

50	d	.
51	b	.
52	b	.
53	c	.
54	a	.
55	a	.
56	d	.
57	a	.
58	a	.
59	c	.
60	a	.
61	d	.
62	a	.
63	a	.
64	c	.
65	b	.
66	d	.
67	c	.