Code 1 1. The term "net sales" refers to gross sales revenue reduced by sales discounts and transportation-in.

a. true b. false

2. The cost of goods available for sale in a given accounting period is equal to the beginning inventory plus the delivered cost of goods purchased during the period minus any purchase discounts and purchase returns and allowances.

a. true b. false

3. The Purchases account is used to record the cost of merchandise purchased for resale and the cost of assets acquired for use in the business.

a. true b. false

4. In preparing a work sheet for a merchandising business, the figure for ending inventory is entered in the Income Statement credit column and the Balance Sheet debit column.

a. true b. false

5. A "cash discount" is called a "purchase discount" by the buying company and "sales discount" by the selling company.

a. true b. false

6. All the following accounts normally have "credit" balances except:
a. Sales.
b. Purchase discounts.
c. Accumulated depreciation.
d. Sales returns and allowances.

7. Abbott, Inc., sold merchandise to Barco, Inc., for $100,000 with credit terms of 2/10, n/30. Upon inspection of the goods, Barco found that items priced at $10,000 were defective and returned them for full credit to the supplier. Abbott agreed to the return. If Barco, Inc., pays for the remainder of the merchandise within the discount period, the amount of the check issued to Abbott should be:
a. $88,200
b. $98,000
c. $88,000
d. $100,000

8. Which of the following lists of accounts is used in computing the cost of goods sold?
a. Transportation-in, Purchases, and Inventory.
b. Net Sales, Inventory, and Purchases.
c. Purchases, Purchase Discounts, and Gross Profit.
d. Inventory, Purchases, and Sales Returns and Allowances.

Code 1 9. The beginning inventory of the Tecolote Pro Shop was $120,000. If the cost of goods sold was $390,000 and ending inventory was $85,000, the purchases must have been:
a. $185,000
b. $355,000
c. $425,000
d. $595,000

10. In a "periodic" inventory system, "cost of goods sold" is computed as:
a. Beginning inventory minus ending inventory.
b. Cost of goods available for sale minus ending inventory.
c. Beginning inventory plus purchases.
d. Beginning inventory plus purchases minus gross profit.

11. Western Shop uses the periodic inventory system and maintains its records on a calendar-year basis. The Inventory account had a debit balance of $55,000 on January 1. During the first four months of the year sales were $72,000, purchases were $44,000, and transportation-in was $2,800. The balance in the ledger account for Inventory at April 30 was:
a. $27,000
b. $29,800
c. $99,000
d. $55,000

12. Which of the following amounts would NOT appear in the Income Statement columns of a work sheet for a merchandising company?
a. Ending inventory.
b. Transportation-in.
c. Purchases.
d. Gross profit.

13. The closing entries for a merchandising business include a debit to which of the following accounts?
a. Inventory (for the amount of the ending inventory).
b. Transportation-in.
c. Sales Discounts.
d. Gross Profit.

14. Which of the following is NOT a temporary owners' equity account?
a. Sales Returns and Allowances.
b. Income Taxes Expense.
c. Retained Earnings.
d. Purchases.

Code 1 15. Which of the following is NOT true about a periodic inventory system?
a. Cost of goods sold is equal to the cost of goods available for sale minus the amount of the ending inventory.
b. The Inventory account remains unchanged until the end of the period.
c. Ending inventory is determined by taking a physical inventory.
d. Cost of goods sold is recorded on a daily basis when merchandise is sold.

16. The inventory at the beginning of the year appears in the year-end financial statements as:
a. A selling expense.
b. An addition to the cost of goods sold section of the income statement.
c. A current asset.
d. A deduction from the cost of merchandise available for sale.

17. The operating cycle is:
a. The average credit period for merchandise purchased.
b. The average length of credit granted to customers.
c. The average time between purchases of merchandise and conversion of this merchandise back into cash.
d. One year.

18. The Triton Company has working capital of $30,000 and a current ratio of 3 to 1. The amount of current assets is:
a. $90,000
b. $60,000
c. $45,000
d. $30,000

19. Internal control is strengthened by an organization plan which makes different persons or departments responsible for different functions such as purchasing, receiving, and payment of invoices.

a. true b. false

20. The same document that a seller calls a sales invoice is called a purchase invoice by the buyer.

a. true b. false

21. Recording purchase invoices at net price has the advantage of calling management's attention to failure to take all cash discounts offered.

a. true b. false

Code 1 22. If you found that a company's accounting records included an account entitled Purchase Discounts Lost, you could reasonably assume that the company recorded purchase invoices on a net price basis.

a. true b. false

23. Of the following, the best description of internal accounting controls is:
a. Measures designed to prevent dishonesty by employees.
b. Procedures for limiting the number of persons who handle the various aspects of a given transaction.
c. Measures taken to safeguard assets and ensure reliability in the accounting records.
d. The serial numbers appearing on important business documents.

24. If a seller ships goods to a customer but charges more than the customer had expected to pay, the discrepancy should come to light when:
a. The purchase order is compared with the purchase invoice.
b. The sales invoice is compared with the purchase invoice.
c. The receiving report is compared with the purchase invoice.
d. The receiving report is compared with the purchase order.

25. The principal advantage of using the net price method in recording purchases is that:
a. The accounting records will draw attention to the failure to take advantage of available discounts.
b. The goods cost less.
c. It is not necessary to pay within the discount period in order to take advantage of the cash discount.
d. The buyer's accounting records will agree with those of the seller.

26. Internal control is strengthened if all cash receipts are deposited daily at the bank.

a. true b. false

27. If the Cash Over and Short account has a debit balance at the end of the accounting period, it is shown as miscellaneous revenue in the income statement.

a. true b. false

28. To make a company's accounting records up-to-date and accurate after a bank reconciliation has been completed, journal entries should be made for any service charges by the bank and for any outstanding checks.

a. true b. false

Code 1 29. The direct charge-off method of recognizing uncollectible accounts expense has the advantage of matching revenue with expenses of the same accounting period.

a. true b. false

30. When an account receivable is determined to be worthless and is written off, the Uncollectible Accounts Expense account is increased.

a. true b. false

31. A major purpose of using an Allowance for Doubtful Accounts is to recognize uncollectible accounts expense in the same accounting period as the related sales which caused the expense.

a. true b. false

32. Which of the following does NOT contribute toward achieving internal control over cash receipts?
a. The practice of depositing cash receipts intact daily in the bank.
b. The use of a petty cash fund.
c. The use of a Cash Over and Short account.
d. The use of cash registers.

33. Which of the following does NOT contribute toward achieving internal control over cash disbursements?
a. The practice of making small cash disbursements directly from the current day's cash receipts.
b. The use of a voucher system.
c. The use of a petty cash fund.
d. The practice of approving every expenditure before the cash disbursement is made.

34. When a petty cash fund is in use:
a. Petty cash is debited only when the fund is replenished.
b. The general bank account is debited only when this fund is established.
c. Small payments are made out of cash receipts before they are deposited.
d. Expenses paid from the fund are recorded when the fund is replenished.

35. Expenses paid through petty cash are recorded in the accounting records:
a. When the petty cash fund is initially established.
b. On the date the petty cash funds are disbursed.
c. When the petty cash fund is replenished.
d. Only at the end of the account period.

Code 1 36. An NSF check returned by the bank should be entered in the depositor's accounting records by a debit to:
a. Cash.
b. An expense account.
c. Accounts Receivable.
d. Cash Over and Short.

37. While preparing a bank reconciliation, an accountant discovered that a $229 check returned with the bank statement had been recorded erroneously in the cash payments journal as $292. In preparing the bank reconciliation the appropriate action to correct this error would be to:
a. Add $63 to the balance per the bank statement.
b. Add $63 to the balance per the depositor's records.
c. Deduct $63 from the balance per the bank statement.
d. Deduct $63 from the balance per the depositor's records.

38. The accounting records of Waller Company showed cash of $14,000 at June 30. The balance per the bank statement at June 30 was $15,380. The only reconciling items were deposits in transit of $4,000, outstanding checks totaling $5,600, an NSF check for $200 returned by the bank which Waller had not yet charged back to the customer, and a bank service charge of $20. The preparation of a bank reconciliation should indicate cash owned by Waller at June 30 in the amount of:
a. $12,400.
b. $13,580.
c. $13,780.
d. $13,800.

39. When a bank reconciliation has been satisfactorily completed, the only related entries to be made on the depositor's record are:
a. To correct errors existing in the accounts.
b. To reconcile items which explain the difference between the balance per the books and the balance per the bank statement.
c. To record outstanding checks and bank service charges.
d. To record items which explain the difference between the balance per the books and the adjusted cash balance.

40. In preparing a bank reconciliation, outstanding checks should be:
a. Added to the balance per the bank statement.
b. Deducted from the balance per the bank statement.
c. Added to the balance per the depositor's records.
d. Deducted from the balance per the depositor's records.

Code 1 41. December 31, before adjusting and closing the accounts, the Allowance for Doubtful Accounts of Wilton Corporation showed a "debit" balance of $4,300. An aging of the accounts receivable indicated the amount probably uncollectible to be $3,900. Under these circumstances, a year-end adjusting entry for uncollectible accounts expense would include a:

a. Debit to the Allowance for Doubtful Accounts for $400.
b. Credit to the Allowance for Doubtful Accounts for $400.
c. Debit to Uncollectible Accounts Expense of $3,900.
d. Debit to Uncollectible Accounts Expense of $8,200.

42. R Company had accounts receivable of $200,000 and an Allowance for Doubtful Accounts of $8,500 just prior to writing off as worthless an account receivable from Dart Company of $1,200. The net realizable values of the accounts receivable before and after the write-off were as follows:

a. $191,500 before and $190,300 after.
b. $191,500 before and $191,500 after.
c. $200,000 before and $198,800 after.
d. $208,500 before and $207,300 after.

43. The Allowance for Doubtful Accounts represents:

a. Cash set aside to make up for bad debt losses.
b. The amount of uncollectible accounts written off to date.
c. The difference between total credit sales and collections on credit sales.
d. The difference between the face value of accounts receivable and the net realizable value of accounts receivable.

44. If a company uses a percentage of net sales in computing the amount of uncollectible accounts expense:

a. No valuation allowance will be required.
b. The relationship between revenue and expenses is being stressed more than the valuation of receivables at the balance sheet date.
c. The existing balance in the Allowance for Doubtful Accounts will be increased sufficiently to equal the probable loss indicated by aging the accounts receivable.
d. Any past-due accounts will be listed as a separate item in the balance sheet.

Code 1 45. At the start of the current year, Belmont Corporation had a credit balance in the allowance for doubtful accounts of $1,200. During the year a monthly provision of 2% of sales was made for uncollectible accounts. Sales for the year were $400,000, and $7,400 of accounts receivable were written off as worthless. No recoveries of accounts previously written off were made during the year. The year-end financial statements should show:

a. Uncollectible accounts expense with a debit balance of $15,400.
b. Allowance for doubtful accounts with a credit balance of $1,800.
c. Allowance for doubtful accounts with a credit balance of $8,600.
d. Uncollectible accounts expense with a debit balance of $7,400.

46. A company which uses the direct charge-off method recognizes uncollectible accounts expense:

a. As a percentage of net sales during the period.
b. As a percentage of net credit sales during the period.
c. As indicated by aging the accounts receivable at the end of the period.
d. As specific accounts receivable are determined to be worthless.

47. A conceptual shortcoming in the direct charge-off method of accounting for uncollectible accounts is that this method violates the:

a. Matching principle.
b. Cost principle.
c. Realization principle.
d. Going-concern assumption.

48. A company maintaining a perpetual inventory system will not need to conduct an annual physical inventory.

a. true b. false

49. An understatement of the ending inventory causes an understatement of net income.

a. true b. false

50. Merchandise was shipped by Sun Wholesale Company to Center Shop on December 30, 19X4. Terms of shipment were F.O.B. shipping point 2/10, n/30. The merchandise arrived at Center Shop on January 2, 19X5. The merchandise should be included as part of inventory of Center Shop in its balance sheet at December 31, 19X4.

a. true b. false

51. During a period of rapid inflation, the use of LIFO will minimize both reported net income and income taxes.

a. true b. false

Code 1 52. Under the periodic inventory system, no day-to-day record is maintained showing the cost of goods sold.

a. true b. false

53. Under the lower of cost or market rule, a business may have to write down its inventory and recognize a loss if the replacement cost of that inventory declines.

a. true b. false

54. Which of the following goods in transit at December 31 should be included in inventory?
a. Both purchases and sales which were shipped F.O.B. destination.
b. Both purchases and sales which were shipped F.O.B. shipping point.
c. Purchases shipped F.O.B. shipping point and sales shipped F.O.B. destination.
d. Purchases shipped F.O.B. destination and sales shipped F.O.B. shipping point.

55. In determining the cost of ending inventory, many companies ignore incidental costs such as transportation charges and insurance costs on goods in transit. Ignoring these costs often may be justified by the accounting principle of:
a. Objectivity.
b. Materiality.
c. Cost.
d. Matching revenue and expense.

56. If the beginning inventory is understated by $20,000 and the ending inventory is overstated by $15,000:
a. Net income will be overstated by $35,000.
b. Net income will be understated by $5,000.
c. Net income will be overstated by $5,000.
d. Net income will be understated by $35,000.

57. The logical method for valuing an inventory in which each item is unique, such as inventory of custom-made jewelry items, is:
a. Specific identification.
b. Average cost.
c. First-in, first-out.
d. Last-in, first-out.

58. A company that is primarily concerned with minimizing the amount of income taxes that it must pay probably values its inventory by which of the following methods?
a. LIFO.
b. FIFO.
c. Lower of average cost or market.
d. Specific identification.

Code 1 59. Northern Lights, Inc., made only three purchases of a particular item of merchandise during its first year of operation. Each purchase was for 100 units and the prices paid were $34 per unit in the first purchase, $38 per unit in the second purchase, and $41 per unit in the third purchase. The ending inventory consisted of 150 units. Under the first-in, first-out method, the value assigned to the ending inventory would be:
a. $5,100
b. $6,000
c. $6,150
d. $5,300

60. When a large portion of net income is considered "inventory profit," this means that:
a. The company is selling inventory which it has not yet paid for.
b. The cost to the company of replacing merchandise sold is substantially higher than the costs being reflected in the income statement.
c. If sales price does not change, the company's gross profit rate should increase next year.
d. The company is probably using the LIFO method of pricing inventory.

61. Axel Company reported sales of $400,000 for the current year. The cost of goods sold was reported as $300,000, and the replacement cost of the merchandise sold was $320,000. The amount of inventory profit included in Axel Company's net income for the current year is:
a. $100,000
b. $80,000
c. 25% of net sales
d. $20,000

62. Candle World had sales of $600,000 during the current period and a gross profit of $240,000. The cost of goods available for sale was $400,000. The ending inventory must have been:
a. $160,000
b. $80,000
c. $40,000
d. $120,000

63. Chanel Supply uses the first-in, first-out method of inventory valuation and maintains a perpetual inventory system. The following information relates to item A, one of the items of merchandise carried by Chanel Supply.
Jan. 1 Units on hand, 6; unit cost, $150
Jan. 5 Purchased 5 units; unit cost, $165
Jan. 12 Purchased 4 units; unit cost, $175
Jan. 31 Sold 8 units
The total cost of the 8 units of item A sold in January was:
a. $1,230
b. $1,195
c. $1,360
d. $1,200

Code 1 64. A "perpetual" inventory system:
a. Cannot be used if the last-in, first-out (LIFO) inventory valuation method is being used.
b. Maintains a continuously updated Inventory account as well as a continuously updated Purchases account.
c. Eliminates the need for taking an annual physical inventory.
d. Provides stronger internal control than does a periodic inventory system.

65. Any reasonable and necessary expenditures to place a newly acquired plant asset in service should be included in the cost of that plant asset.

a. true b. false

66. Equipment which is maintained in "as good as new" condition need not be depreciated.

a. true b. false

67. It is acceptable accounting practice to treat an expenditure which is not material in dollar amount as an expense of the current period even though the expenditure may benefit several periods.

a. true b. false

68. The book value or carrying value of a plant asset is its current replacement cost minus the accumulated depreciation to date.

a. true b. false

69. Which of the following costs incurred by Derek Company in connection with the acquisition of a machine should not be included as part of the cost of this asset?
a. Freight charges to have the machine delivered.
b. Installation charges.
c. State sales tax based on the price of the machine.
d. Replacement of parts damaged when a small fire broke out during installation of the machine.

70. Metro Corporation acquired a used factory building in poor physical condition due to inadequate maintenance and vandalism. Before placing the building in use, Metro Corporation spent several thousand dollars in replacing broken windows, painting the building, and installing new support beams. These expenditures should be recorded by debiting:
a. Repairs Expense.
b. Land.
c. Building.
d. Land Improvements.

Code 1 71. Which of the following should not be treated as a revenue expenditure?
a. Sales tax paid in conjunction with the purchase of office equipment.
b. Annual fire insurance premiums on plant and equipment.
c. Research and development costs.
d. Small expenditures to acquire long-lived assets, such as $12 to purchase a wastebasket.

72. On January 3, Midtown Cleaners purchased a delivery truck for $18,000. The estimated useful life of the truck is five years during which time it will be driven about 200,000 miles. Estimated residual value is $3,000. As the truck was purchased early in January, a full year's depreciation expense is recorded in each calender year. If Midtown Cleaners uses the double-declining-balance method of depreciation, the depreciation expense for the SECOND year will be:
a. $3,600
b. $4,320
c. $6,000
d. $7,200

73. On January 3, Midtown Cleaners purchased a delivery truck for $18,000. The estimated useful life of the truck is five years during which time it will be driven about 200,000 miles. Estimated residual value is $3,000. As the truck was purchased early in January, a full year's depreciation expense is recorded in each calender year. If Midtown Cleaners uses the units-of-output method of depreciation, the depreciation expense for the FIRST year, assuming that the truck is driven 50,000 miles, will be:
a. $3,000
b. $3,600
c. $3,750
d. $4,500

74. On April 8, 19X1, Arco Corp., acquired equipment at a cost of $90,000. The equipment is to be depreciated by the straight-line method over five years with no provision for salvage value. Depreciation for fractional years is computed by rounding the ownership period to the nearest month. Depreciation expense recognized in 19X1 will be:
a. $9,000
b. $12,000
c. $13,500
d. $18,000

Code 1 75. Machinery acquired new on January 1 at a cost of $40,000 was estimated to have a useful life of 10 years and a residual salvage value of $10,000. Straight-line depreciation was used. On January 1, following six full years of use of the machinery, management decided that the estimate of useful life had been too long and that the machinery would have to be retired after two more years, that is, at the end of the eighth year of service. Under this revised estimate, the depreciation expense for the SEVENTH year of use would be:

a. $6,000
b. $8,000
c. $11,000
d. $12,000

76. If the units-of-output method of depreciation is used:

a. Depreciation will be lower in early years and higher in later years of service life.
b. Depreciation expense will be an equal amount during each period.
c. Depreciation expense will be high when output is low and low when output is high.
d. Depreciation per unit of output will be an equal amount over the life of the asset.

77. L and M Companies purchase identical plant assets having an estimated service life of 10 years. L Company uses the straight-line method of depreciation; M Company uses the sum-of-the-years'-digits method. Assuming the companies are identical in all other respects:

a. M Company's net income will be lower during the tenth year than L Company's.
b. If the asset is sold at the end of the ninth year, M Company is more likely to report a gain on the transaction than L.
c. M Company will charge more depreciation on this asset over the 10-year service life than L Company.
d. L Company's depreciation expense will be higher during the first year than M's.

78. The journal entry to record the sale or disposition of a depreciable plant asset always includes:

a. Recognition of a gain.
b. A debit to the Accumulated Depreciation account for the related accumulated depreciation.
c. Recognition of a loss.
d. A debit to the asset account for the book value of the asset.

79. Del Rey Imports sold a depreciable plant asset for cash of $25,000. The accumulated depreciation amounted to $60,000 and a loss of $5,000 was recognized on the sale. Under these circumstances, the original cost of the asset must have been:

a. $55,000
b. $65,000
c. $80,000

d. $90,000

Code 1 80. Ross Construction traded in a machine on a similar asset, paying cash for the difference between the list price and the trade-in allowance. The income tax basis of the new asset is equal to the:

a. List price of the new machine.
b. Estimated fair market value of the new machine.
c. Book value of the old machine plus the cash paid.
d. Trade-in allowance on the old machine plus the cash paid.

ANSWER KEY Code 1 PAGE 1

1.	(501)	b	41.	(744)	d
2.	(503)	a	42.	(746)	b
3.	(505)	b	43.	(747)	d
4.	(508)	a	44.	(749)	b
5.	(520)	a	45.	(750)	b
6.	(522)	d	46.	(751)	d
7.	(523)	a	47.	(752)	a
8.	(524)	a	48.	(801)	b
9.	(525)	b	49.	(802)	a
10.	(526)	b	50.	(805)	a
11.	(530)	d	51.	(808)	a
12.	(533)	d	52.	(813)	a
13.	(537)	a	53.	(815)	a
14.	(539)	c	54.	(822)	c
15.	(543)	d	55.	(823)	b
16.	(545)	b	56.	(827)	a
17.	(547)	c	57.	(829)	a
18.	(549)	c	58.	(830)	a
19.	(608)	a	59.	(833)	b
20.	(610)	a	60.	(835)	b
21.	(613)	a	61.	(837)	d
22.	(614)	a	62.	(845)	c
23.	(631)	c	63.	(848)	a
24.	(637)	a	64.	(849)	d
25.	(641)	a	65.	(901)	a
26.	(702)	a	66.	(903)	b
27.	(709)	b	67.	(906)	a
28.	(711)	b	68.	(913)	b
29.	(713)	b	69.	(921)	d
30.	(716)	b	70.	(922)	c
31.	(718)	a	71.	(925)	a
32.	(726)	b	72.	(931)	b
33.	(727)	a	73.	(932)	c
34.	(734)	d	74.	(933)	c
35.	(735)	c	75.	(934)	a
36.	(736)	c	76.	(937)	d
37.	(737)	b	77.	(938)	b
38.	(739)	c	78.	(941)	b
39.	(740)	d	79.	(942)	d
40.	(741)	b	80.	(944)	c