

Test Bank for

Fundamentals of Financial

Accounting 8th Edition

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Answers Included at the End of Each Chapter

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- 105) Every financial statement should have "who, what, and when" in its heading. These include the:
- A) name of the person preparing the statement, the type of financial statement, and when the financial statement was reported to the SEC
 - B) name of the person preparing the statement, the name of the company, and the date the statement was prepared
 - C) name of the company, the type of financial statement, and the time period or date from which the data were taken
 - D) name of the company, the purpose of the statement, and when the financial statement was reported to the IRS
- 106) Which of the following descriptions about a Notes Payable is correct?
- A) A written promise to repay a loan
 - B) A type of long-term asset
 - C) Generally informal in nature
 - D) Reported as part of stockholders' equity on the balance sheet
- 107) The WC Company borrowed \$26,500 from a bank during the year. This borrowing would be reported on the statement of cash flows as a(n):
- A) investing activity in the amount of (\$26,500)
 - B) financing activity in the amount of (\$26,500)
 - C) investing activity in the amount of \$26,500
 - D) financing activity in the amount of \$26,500
- 108) Which of the following would be an acceptable alternative name for the income statement?
- A) Statement of Profit and Loss
 - B) Statement of Financial Position
 - C) Statement of Retained Earnings
 - D) Statement of Revenues and Expenses

173) The Statement of Cash Flows for the current year contained the following:

Cash received from customers	\$ 10,000
Cash used for purchase of equipment	40,000
Cash received for stock issuance	30,000
Cash used for payments to suppliers & employees	5,000
Cash dividends paid to stockholders	1,000
Cash borrowed from bank	20,000

The change in cash for the current year was an increase of \$14,000. What was the amount of cash flows from (used in) investing activities?

- A) (\$1,000)
- B) (\$40,000)
- C) (\$10,000)
- D) \$10,000

174) The Statement of Cash Flows for the current year contained the following:

Cash received from customers	\$ 10,000
Cash used for purchase of equipment	40,000
Cash received for stock issuance	30,000
Cash used for payments to suppliers & employees	5,000
Cash dividends paid to stockholders	1,000
Cash borrowed from bank	20,000

The change in cash for the current year was an increase of \$14,000. What is the amount of cash flows from (used in) financing activities?

- A) (\$40,000)
- B) \$5,000
- C) \$49,000
- D) \$10,000

Answer Key

Test name: Chapter 01 8e Phillips

- 1) FALSE
- 2) FALSE
- 3) FALSE
- 4) TRUE
- 5) TRUE
- 6) TRUE
- 7) TRUE
- 8) FALSE
- 9) TRUE
- 10) TRUE
- 11) FALSE
- 12) FALSE
- 13) FALSE
- 14) FALSE
- 15) FALSE
- 16) TRUE
- 17) FALSE
- 18) FALSE
- 19) FALSE
- 20) FALSE
- 21) FALSE
- 22) B
- 23) C
- 24) D
- 25) C
- 26) B
- 27) B
- 28) A
- 29) A
- 30) C
- 31) B
- 32) B
- 33) B
- 34) D
- 35) B
- 36) C
- 37) C

- 21) The acquisition of inventory in an exchange for a company's stock would increase the current ratio of the company
- true
 - false
- 22) The current ratio can be used to evaluate a company's ability to pay liabilities in the short term, and in general, a higher ratio means better ability to pay
- true
 - false
- 23) If the debits equal the credits in the trial balance, it verifies that all transactions are accurate
- true
 - false
- 24) Owners of a company:
- A) hold promissory notes as evidence of their ownership claim
 - B) are entitled to repayment of their investment
 - C) have a claim that is secondary to creditor's claims
 - D) have a claim equal to the amount of liabilities a company owes
- 25) If a company borrows money from a bank and signs an agreement to repay the loan several years from now, in which account would the company report the amount borrowed?
- A) Common Stock
 - B) Accounts Payable
 - C) Notes Payable (long-term)
 - D) Retained Earnings
- 26) The Sweet Smell of Success Fragrance Company borrowed \$60,000 from the bank to be paid back in five years and used all of the money to purchase land for a new store. Sweet Smell's balance sheet would show this as:
- A) \$60,000 under Land and \$60,000 under Notes Payable (long-term)
 - B) \$60,000 under Depreciation Expense and \$60,000 under Notes Payable (long-term)
 - C) \$60,000 under Land and \$60,000 under Notes Receivable (long-term)
 - D) \$60,000 under Other Assets and \$60,000 under Other Liabilities

- 125) A company purchased equipment for use in the business at a cost of \$15,000, \$3,750 was paid in cash, and the company signed a note for the balance. The journal entry to record this transaction will include a:
- A) debit to Cash of \$15,000
 - B) debit to Equipment of \$3,750
 - C) debit to Notes Payable of \$11,250
 - D) credit to Notes Payable of \$11,250
- 126) A company purchased equipment for use in the business at a cost of \$36,000, \$9,000 was paid in cash, and the company signed a note for the balance. The journal entry to record this transaction will include a:
- A) debit to Notes Payable of \$27,000
 - B) debit to Cash of \$36,000
 - C) credit to Notes Payable of \$27,000
 - D) debit to Equipment of \$9,000
- 127) Which account would be decreased with a credit?
- A) Retained Earnings
 - B) Accounts Receivable
 - C) Common Stock
 - D) Notes Payable
- 128) Which account would be increased with a debit?
- A) Supplies
 - B) Accounts Payable
 - C) Common Stock
 - D) Retained Earnings
- 129) Shaylee, Incorporated borrowed \$62,000 from a bank, depositing those funds in its bank account and signing a formal agreement to repay the loan in two years. What is the correct journal entry for this transaction?
- A) Debit notes payable and credit cash for \$62,000
 - B) Debit notes payable and debit cash for \$62,000
 - C) Credit notes payable and credit cash for \$62,000
 - D) Debit cash and credit notes payable for \$62,000

- 203) Which of the following statements about the current ratio is not correct?
- A) When making comparisons across companies, it's far easier to express the relationship as a ratio
 - B) The current ratio is used to evaluate a company's ability to pay current obligations
 - C) Having more current assets than current liabilities will yield a current ratio less than 1.0
 - D) A high current ratio suggests good liquidity

204) A company's trial balance included the following account balances:

Accounts Payable	\$ 19,217
Accounts Receivable	81,346
Cash	73,334
Income Tax Payable	3,522
Inventory	25,826
Notes Payable, due in two years	1,719
Equipment	54,228
Stockholders' Equity	202,908
Supplies	5,522
Wages Payable	12,890

What is the amount of Total Assets on the Balance Sheet?

- A) \$240,256
- B) \$443,164
- C) \$234,734
- D) \$259,473

- 70) Under the accrual basis of accounting, the _____ recognition ("matching") principle requires that expenses be recognized in the same period as the related revenues
- A) expense
 - B) revenue
 - C) cost
 - D) separate
- 71) The expense recognition principle ("matching") indicates:
- A) where on the income statement expenses should be presented
 - B) when revenues are recognized on the income statement
 - C) the ordering of current assets and current liabilities on the balance sheet
 - D) when costs are recognized as expenses on the income statement
- 72) In accordance with the expense recognition principle, expenses are recorded in the period when the:
- A) related revenues are recorded
 - B) cash is paid
 - C) related assets are recorded
 - D) contract and performance obligations are identified
- 73) Murphy, Incorporated paid \$9,600 cash for insurance in June that provides coverage for six months, from July through December. How much expense should be recognized in June to be in accordance with generally accepted accounting principles?
- A) No expense should be recognized in June
 - B) \$9,600
 - C) \$1,600 ($\$9,600 \times (1 \div 6)$ for the month of June)
 - D) \$4,800

- 160) During March, Seconds Best Company had cash sales of \$35,000 and sales on account of \$210,000. In April, payments received on account totaled \$175,000. The journal entry prepared by Seconds Best Company to record customer payments on account during April would include a debit to:
- A) Cash and a credit to Deferred Revenue for \$175,000
 - B) Cash and a credit to Sales Revenue for \$175,000
 - C) Cash and a credit to Accounts Receivable for \$175,000
 - D) Cash and a credit to Accounts Payable for \$175,000
- 161) Trudy's Café paid employees \$4,680 in September for work performed during that month. What journal entry will Trudy's prepare to record that transaction?
- A) Debit Cash and credit Salaries and Wages Revenue for \$4,680
 - B) Debit Cash and credit Salaries and Wages Payable for \$4,680
 - C) Debit Salaries and Wages Revenue and credit Cash for \$4,680
 - D) Debit Salaries and Wages Expense and credit Cash for \$4,680
- 162) A company received a bill of \$2,110 for utilities used in the current month. The journal entry to record this event:
- A) will include a debit to Accounts Receivable for \$2,110
 - B) will include a credit to Accounts Payable for \$2,110
 - C) will include a credit to Utilities Expense
 - D) is not required; no journal entry should be prepared until the utilities bill is paid
- 163) On January 31, your company prepays rent of \$13,250 for February and March. Which of the following describes the effects of this transaction on your company's accounting equation?
- A) Assets decrease \$13,250 and liabilities decrease \$13,250
 - B) Assets increase \$13,250 and stockholders' equity increases \$13,250
 - C) There is no change to total assets, liabilities or stockholders' equity
 - D) Liabilities decrease \$13,250 and stockholders' equity increases \$13,250

- 221) Which of the following statements about the unadjusted trial balance is correct?
- A) It generally includes final amounts for all expenses, but preliminary amounts for all revenues
 - B) It will not balance if there is a mistake
 - C) It includes end-of-the-accounting period adjustments
 - D) It is an internal report and not part of the financial statements issued to external decision makers
- 222) The unadjusted trial balance:
- A) is a preliminary financial statement for external and internal users
 - B) generally lists account names in alphabetical order
 - C) is created to determine that total debits equal total credits
 - D) indicates whether or not errors were made in recording transactions
- 223) Which of the following would appear in the debit column on the unadjusted trial balance?
- A) Retained Earnings
 - B) Deferred Revenue
 - C) Prepaid Rent
 - D) Notes Payable
- 224) Which of the following statements is correct about the unadjusted trial balance?
- A) Only balance sheet accounts are listed
 - B) Typically, accounts are listed in order of all debit balance accounts first and all credit balance accounts next
 - C) When it balances, transactions have been properly recorded
 - D) Total debits should equal total credits

- 64) During the month, a company uses up \$4,000 of supplies. At the end of the month, the related adjusting journal entry would result in a(n):
- A) decrease in an asset and an equal decrease in expenses
 - B) increase in an asset and an equal increase in expenses
 - C) decrease in an asset and an equal increase in expenses
 - D) increase in an asset and a decrease in expenses
- 65) A company started the year with \$3,750 of supplies on hand. During the year the company purchased additional supplies of \$2,000 and recorded them as an increase to the Supplies asset. At the end of the year the company determined that only \$750 of supplies are still on hand. What is the adjusting journal entry to be made at the end of the period?
- A) Debit Supplies Expense and credit Supplies for \$5,000
 - B) Debit Supplies and credit Supplies Expense for \$750
 - C) Debit Supplies Expense and credit Supplies for \$3,000
 - D) Debit Supplies and credit Supplies Expense for \$2,500
- 66) The asset account Office Supplies has a balance of \$830 at the beginning of the year. The amount on hand at the end of the year is \$560. The company has calculated the Supplies Expense for the year to be \$4,100. Based on this information, what amount of office supplies was purchased during the year?
- A) \$3,540
 - B) \$3,830
 - C) \$4,660
 - D) \$0
- 67) The asset account Office Supplies has a balance of \$2,000 at the beginning of the year. The amount on hand at the end of the year is \$1,250. The company has calculated the Supplies Expense for the year to be \$8,750. Based on this information, what amount of office supplies was purchased during the year?
- A) \$0
 - B) \$10,000
 - C) \$8,000
 - D) \$7,500

- 171) Which of the following appears on an adjusted trial balance?
- A) The ending balance of Retained Earnings
 - B) Dividends
 - C) Gross profit
 - D) Net income
- 172) Before the closing entries are prepared, the Retained Earnings balance in the adjusted trial balance is equal to the balance of that account:
- A) at the beginning of the period
 - B) after adding revenues and subtracting expenses but before subtracting dividends
 - C) at the end of the period
 - D) at the beginning of the next period
- 173) If no errors have been made, when a company prepares its adjusted trial balance:
- A) assets will equal liabilities plus Retained Earnings
 - B) stockholders' equity will include the current period's net income
 - C) the debit column and the credit column will be equal
 - D) income statement accounts will have been closed
- 174) Which of the following is constructed immediately prior to preparing the financial statements with the purpose of demonstrating that the accounts are in balance?
- A) Unadjusted trial balance
 - B) Adjusted trial balance
 - C) Closing entries
 - D) Post-closing trial balance
- 175) What is the purpose of the adjusted trial balance?
- A) To ensure that all transactions have been recorded
 - B) To ensure that total debits equal total credits after the adjustments have been recorded
 - C) To ensure that the correct accounts have been adjusted
 - D) To ensure that there have been no errors in recording the transactions

- 13) A petty cash fund is a separate checking account used to reimburse employees for expenditures they have made on behalf of the organization
- true
 - false
- 14) The primary goal of internal controls for cash receipts is to ensure that the business receives all cash before month end
- true
 - false
- 15) The primary goal of internal controls for cash payments is to ensure that the business pays only for properly authorized transactions
- true
 - false
- 16) On a bank statement, deposits are listed as credits and cleared checks are listed as debits
- true
 - false
- 17) Cash equivalents are short-term, highly liquid investments purchased within one year of maturity
- true
 - false
- 18) The entry recorded when the petty cash fund is replenished includes a debit to Petty Cash and a credit to Cash
- true
 - false
- 19) Cash that is legally or contractually required to be set aside for a specific purpose cannot be reported with Cash and Cash Equivalents on the balance sheet
- true
 - false

- 128) Which of the following is added to the bank balance on a bank reconciliation?
- A) Deposits in transit
 - B) Outstanding checks
 - C) EFT received from customers
 - D) Bank service charge
- 129) Outstanding checks written by the company should be a(n) _____ on the company's bank reconciliation
- A) deduction from the book balance
 - B) deduction from the bank balance
 - C) addition to the book balance
 - D) addition to the bank balance
- 130) In a bank reconciliation, an outstanding check is:
- A) deducted from the bank balance
 - B) added to the book balance
 - C) deducted from the book balance
 - D) added to the bank balance
- 131) In a bank reconciliation, a deposit in transit is:
- A) deducted from the bank balance
 - B) added to the book balance
 - C) deducted from the book balance
 - D) added to the bank balance
- 132) Which of the following is deducted from the bank balance on a bank reconciliation?
- A) Deposits in transit
 - B) Outstanding checks
 - C) EFT received from customers
 - D) Bank service charge

- 25) The receipt of cash is one of the operating activities of:
- A) companies that sell goods but not companies that sell services
 - B) companies that sell to consumers but do not sell to other companies
 - C) merchandising, manufacturing, and service companies
 - D) companies that sell goods they bought from others but not of companies that make the goods they sell
- 26) A series of activities that generates revenues and collects cash from customers is called:
- A) the operating cycle
 - B) the financing cycle
 - C) the accounting cycle
 - D) the perpetual cycle
- 27) Sleepy Head Coffee Shop buys coffee, mugs, and pastries from Morning Show Company for sale to consumers. What type of company is Sleepy Head Coffee Shop?
- A) Retail merchandiser
 - B) Wholesale merchandiser
 - C) Manufacturer
 - D) Service business
- 28) Which line item would be found on a merchandiser's balance sheet but not on a service firm's balance sheet?
- A) Supplies
 - B) Cost of Goods Sold
 - C) Inventory
 - D) Sales Revenue
- 29) Which line item would be found on a merchandiser's income statement but not on a service firm's income statement?
- A) Net Income
 - B) Service Revenue
 - C) Depreciation Expense
 - D) Cost of Goods Sold

124) Missouri Company uses a perpetual inventory system. On October 1, Missouri Company sold inventory on account in the amount of \$6,500 to Montebello Company, terms 1/10, n/30. The items cost Missouri \$4,200. On October 4, Montebello returns some of the inventory. This inventory had a selling price of \$500 and a cost of \$200. On October 8, Montebello Company paid Missouri Company the amount due on that date.

What journal entry (entries) will Missouri prepare on October 1 to record this sale?

- A) Debit Accounts Receivable and credit Sales Revenue for \$6,500; debit Inventory and credit Cost of Goods Sold for \$4,200
- B) Debit Sales Revenue for \$6,500 and credit Accounts Receivable and credit for \$6,500; debit Cost of Goods Sold and credit Inventory for \$4,200
- C) Debit Cost of Goods Sold for \$4,200, debit Gross Profit for \$2,300, and credit Sales Revenue for \$6,500
- D) Debit Accounts Receivable and credit Sales Revenue for \$6,500; debit Cost of Goods Sold and credit Inventory for \$4,200

125) Missouri Company uses a perpetual inventory system. On October 1, Missouri Company sold inventory on account in the amount of \$6,500 to Montebello Company, terms 1/10, n/30. The items cost Missouri \$4,200. On October 4, Montebello returns some of the inventory. This inventory had a selling price of \$500 and a cost of \$200. On October 8, Montebello Company paid Missouri Company the amount due on that date.

What journal entry (entries) will Missouri Company make on October 4 to record the sales return?

- A) Debit Sales Returns and Allowances and credit Accounts Receivable for \$500; debit Inventory and credit Cost of Goods Sold for \$200
- B) Debit Sales Returns and Allowances for \$200 and credit Accounts Receivable for \$200
- C) Debit Sales Returns and Allowances for \$500 and credit Inventory for \$500
- D) Debit Accounts Receivable and credit Sales Revenue for \$500; debit Cost of Goods Sold and credit Inventory for \$200

201) The following is a listing of some of the balance sheet accounts and all income statement accounts for Northview Company as they appear on the company's adjusted trial balance

Accounts Payable	\$8,000
Accounts Receivable	18,000
Inventory	21,400
Advertising Expense	15,500
Cost of Goods Sold	117,000
Delivery Expense	6,700
Income Tax Expense	2,250
Insurance Expense	1,000
Rent Expense	14,800
Sales Revenue	230,000
Sales Discounts	10,300
Sales Returns & Allowances	29,500

Net income would be:

- A) \$35,200
- B) \$32,950
- C) \$34,200
- D) \$41,200

68) Maxell Company uses the FIFO method to assign costs to inventory and cost of goods sold. The company uses a periodic inventory system. Consider the following information:

Date	Description	Number of units	Cost per unit
January 1	Beginning inventory	100	\$ 5
June 2	Purchase	75	\$ 4
November 5	Sales	125	

What amounts would be reported as the cost of goods sold and ending inventory balances for the year?

- A) Cost of goods sold \$625; Ending inventory \$175
- B) Cost of goods sold \$755; Ending inventory \$225
- C) Cost of goods sold \$550; Ending inventory \$250
- D) Cost of goods sold \$600; Ending inventory \$200

69) Beryl Company uses a periodic inventory system and has the following information regarding its inventory:

Beginning inventory	400 units @ \$15	\$ 6,000
Purchase on January 25	600 units @ \$16	9,600
Purchase on March 15	400 units @ \$17	6,800
Purchase on October 2	800 units @ \$18	14,400
Goods available for sale		\$ 36,800

There are 1,000 units in ending inventory. What is the amount of the ending inventory using the LIFO method?

- A) \$6,000
- B) \$14,400
- C) \$15,600
- D) \$17,800

- 145) Merle Industries had been selling its product for \$22 per unit, but recently lowered the selling price to \$16 per unit. The company's current inventory consists of 205 units purchased at \$18 per unit. The market value of this inventory is currently \$14 per unit. At what amount should the company's inventory be reported on the balance sheet?
- A) \$2,870
 - B) \$3,690
 - C) \$3,280
 - D) \$4,510
- 146) Merle Industries had been selling its product for \$40 per unit, but recently lowered the selling price to \$30 per unit. The company's current inventory consists of 200 units purchased at \$32 per unit. The market value of this inventory is currently \$26 per unit. At what amount should the company's inventory be reported on the balance sheet?
- A) \$5,200
 - B) \$6,400
 - C) \$6,000
 - D) \$8,000
- 147) When the market value of inventory drops below the cost recorded in the financial records, applying the lower of cost or market or net realizable value (LCM or NRV) rule causes:
- A) a decrease in cost of goods sold
 - B) no change in net income, other things being equal
 - C) a decrease in total assets
 - D) an increase in net income

- 198) D
- 199) A
- 200) A
- 201) C
- 202) C
- 203) D
- 204) B
- 205) B
- 206) A
- 207) A
- 208) B
- 209) A
- 210) D
- 211) C
- 212) C
- 213) C
- 214) C
- 215) B
- 216) D
- 217) A

- 102) Quill Industries uses the aging of accounts receivable method. Its estimate of uncollectible receivables resulting from the aging analysis equals \$37,500. The unadjusted credit balance in the Allowance for Doubtful Accounts account is \$13,000. What is the estimated Bad Debt Expense for the period?
- A) \$24,500
 - B) \$37,500
 - C) \$50,500
 - D) \$13,000
- 103) Quill Industries uses the aging of accounts receivable method. Its estimate of uncollectible receivables resulting from the aging analysis equals \$20,000. The unadjusted credit balance in the Allowance for Doubtful Accounts account is \$6,400. What is the estimated Bad Debt Expense for the period?
- A) \$6,400
 - B) \$13,600
 - C) \$20,000
 - D) \$26,400
- 104) As of December 31, Frappe Company has a balance of \$15,000 in accounts receivable. Of this amount, \$1,500 is past due and the remainder is not yet due. Frappe has a credit balance of \$145 in the Allowance for Doubtful Accounts. Frappe Company estimates its bad debt losses using the aging of receivables method, with estimated bad debt loss rates equal to 3% of accounts not yet due and 10% of past due accounts. How will the Bad Debt Expense account be included in the required adjusting journal entry at year-end?
- A) Debit Bad Debt Expense \$145
 - B) Debit Bad Debt Expense \$410
 - C) Credit Bad Debt Expense \$555
 - D) Credit Bad Debt Expense \$415

- 189) When a company has earned interest in the current period but has not yet recorded the interest, what type of adjustment is the company required to make?
- A) Make an adjusting entry at the end of the current period to accrue the interest earned
 - B) Make no adjusting entry at the end of the period because interest has not been earned yet
 - C) Make an adjusting entry at the end of the next period to accrue interest earned
 - D) No adjustment is necessary until the cash is collected
- 190) What effect does the adjusting entry for interest earned but not yet received have on the accounting equation?
- A) It results in an increase in assets and stockholders' equity
 - B) It results in a decrease in assets and stockholders' equity
 - C) It results in an increase in assets and liabilities
 - D) It results in an increase in assets and decrease in stockholders' equity
- 191) ABC Corporation received a 3-month, 8%, \$1,500 notes receivable on November 1. The adjusting entry on December 31 will include a:
- A) debit to Interest Revenue of \$20
 - B) credit to Interest Receivable of \$10
 - C) credit to Interest Revenue of \$120
 - D) credit to Interest Revenue of \$20
- 192) ABC Corporation received a 3-month, 8%, \$1,500 notes receivable on December 1. The adjusting entry on December 31 will include a:
- A) debit to Interest Revenue of \$10
 - B) credit to Interest Receivable of \$20
 - C) credit to Interest Revenue of \$30
 - D) debit to Interest Receivable of \$10

- 25) The MegaHit Film Studio owns a production lot and related equipment. How would MegaHit Company categorize these assets?
- A) Tangible assets
 - B) Natural resources
 - C) Intangible assets
 - D) Goodwill
- 26) Which of the following would be classified as a long-lived asset?
- A) Land on which a new store is located
 - B) Land purchased for resale next month
 - C) Cash
 - D) Retained earnings
- 27) A productive asset:
- A) will be used up within 1 year from the balance sheet date
 - B) is the same as stockholders' equity
 - C) is part of inventory
 - D) is used to produce goods or services that will be sold to customers
- 28) A category of long-lived assets that are depleted over time is:
- A) delivery equipment
 - B) natural resources
 - C) machinery
 - D) cash
- 29) Which of the following is a natural resource that is depleted over time?
- A) Timber
 - B) Mining equipment
 - C) Cash
 - D) Inventory

- 128) The units-of-production method provides the closest matching of a long-lived asset's depreciation expense to the revenues generated by using that asset when the:
- A) amount of production is the highest in the early years of an asset's life and lower in later years
 - B) long-lived asset is used by a merchandising operation
 - C) amount of production remains fairly constant from one period to the next
 - D) amount of asset production varies significantly from one period to the next
- 129) On September 1, Emil Rovey purchased a vehicle for \$98,000 with a residual value of \$5,000. The estimated useful life is 10 years, and the company uses the straight-line method. What is the depreciation expense for the year ended December 31?
- Note: Round your answer to the nearest whole dollar amount**
- A) \$3,100
 - B) \$2,325
 - C) \$9,300
 - D) \$3,267
- 130) On September 1, Emil Rovey purchased a vehicle for \$57,500 with a residual value of \$7,500. The estimated useful life is 5 years, and the company uses the straight-line method. What is the depreciation expense for the year ended December 31?
- A) \$3,333
 - B) \$2,500
 - C) \$10,000
 - D) \$3,833
- 131) Chuck Daniels Auto acquired a hydraulic lift on August 1, 2024. The lift cost \$165,000, had an estimated useful life of 10 years and a residual value of \$16,500 at the end of its useful life. What amount of depreciation expense would be recognized under the double-declining-balance method for the year ending December 31, 2024?
- A) \$13,750
 - B) \$16,500
 - C) \$33,000
 - D) \$19,250

234) The company has net sales revenue of \$38 million during 2024. The company's records also included the following information:

Assets	12/31/23	12/31/24
Property, plant, and equipment	\$24 million	\$27 million
Licensing agreements	\$6 million	\$5 million
Goodwill	\$4 million	\$4 million
Investments	\$5 million	\$6 million

What is the company's fixed asset turnover ratio for 2024?

- A) 1.788
- B) 1.46
- C) 1
- D) 1.49

235) The company has net sales revenue of \$36 million during 2024. The company's records also included the following information:

Assets	12/31/23	12/31/24
Property, plant, and equipment	\$23 million	\$25 million
Licensing agreements	\$0.5 million	\$0.4 million
Goodwill	\$0.3 million	\$0.3 million
Investments	\$0.4 million	\$0.5 million

What is the company's fixed asset turnover ratio for 2024?

- A) 1.800
- B) 1.33
- C) 1.00
- D) 1.50

- 39) Thomas Longbow is the only employee of Presido, Incorporated. During the first week of January, Longbow earned \$2,600 and had federal and state income tax withholdings of \$130 and \$48.75, respectively. FICA taxes are 7.65% on earnings up to \$132,900. State and federal unemployment taxes for the period are \$162.50 and \$26, respectively.
- What would be the amount of Longbow's payroll check for the first week of January?
- A) \$2,033.85
 - B) \$2,600.00
 - C) \$2,401.10
 - D) \$2,222.35
- 40) Thomas Longbow is the only employee of Presido, Incorporated. During the first week of January, Longbow earned \$1,600 and had federal and state income tax withholdings of \$80 and \$30, respectively. FICA taxes are 7.65% on earnings up to \$132,900. State and federal unemployment taxes for the period are \$100 and \$16, respectively.
- What would be the amount of Longbow's payroll check for the first week of January?
- A) \$1,367.60
 - B) \$1,483.60
 - C) \$1,257.60
 - D) \$1,251.60
- 41) Thomas Longbow is the only employee of Presido, Incorporated. During the first week of January, Longbow earned \$1,200 and had federal and state income tax withholdings of \$60 and \$22.50, respectively. FICA taxes are 7.65% on earnings up to \$132,900. State and federal unemployment taxes for the period are \$75.00 and \$12.00, respectively.
- What is Presido's payroll tax expense for the week?
- A) \$353.10
 - B) \$169.50
 - C) \$178.80
 - D) \$261.30

- 141) Which of the following statements about the issuance of bonds at a premium is not correct?
- A) The Premium on Bonds Payable account is amortized each year and reduces the company's annual Interest Expense
 - B) On the date of issuance, the stated interest rate was greater than the market interest rate
 - C) As the current date approaches the maturity date, the carrying value of the bond approaches the face value of the bond
 - D) The account used to record the premium has a normal debit balance
- 142) Which of the following statements about the issuance of bonds at a discount is not correct?
- A) The contra-liability account, Discount on Bonds Payable, is amortized each year by shifting part of its balance to interest expense
 - B) As the current date approaches the maturity date, the carrying value of the bond approaches the face value of the bond
 - C) At the date of issuance, the market interest rate was higher than the stated interest rate
 - D) The account used to record the discount is a normal credit balance account
- 143) When bonds are issued at a discount, which of the following is not correct?
- A) At the end of ten years, the balance in the Discount on Bonds Payable account will equal zero
 - B) At the end of ten years, the carrying value will equal the face value
 - C) At the end of ten years, the total interest expense will reflect the market rate of interest
 - D) At the end of ten years, the total interest expense will equal the total interest paid
- 144) When bonds are retired at their maturity date, the balance in the Bonds Payable account is equal to the bond's:
- A) face value minus any premium amortized
 - B) face value plus interest to be paid
 - C) face value plus any discount amortized
 - D) face value

- 239) Which of the following statements about bonds payable net of a discount or premium is not correct?
- A) If a company records a discount or premium with the bonds payable in a single account called Bonds Payable, Net, it is using simplified effective-interest amortization
 - B) When bonds payable are accounted for net of a discount, the initial amount recorded in the Bonds Payable, Net account is the issue price of the bond
 - C) When simplified effective-interest amortization is used for bonds issued at a premium, the balance in the Bonds Payable, Net account will increase as the bond approaches the maturity date
 - D) If a company issued bonds at their face value, the balance of Bonds Payable, Net account will always be equal to the face value of the bonds as long as the bonds are outstanding
- 240) Hermosa Vista Company issued \$210,000 5-year, 7.00% bonds and received \$214,363 in cash. The market rate of interest when the bonds were issued was 6.50%. What is the amount of interest expense to be recorded for the first annual interest period if the company uses simplified effective-interest amortization?
- A) \$15,005.41
 - B) \$13,933.60
 - C) \$14,700.00
 - D) \$13,000.00
- 241) Hermosa Vista Company issued \$200,000 5-year, 7% bonds and received \$204,155 in cash. The market rate of interest when the bonds were issued was 6.5%. What is the amount of interest expense to be recorded for the first annual interest period if the company uses simplified effective-interest amortization?
- A) \$13,270.08
 - B) \$14,000.00
 - C) \$13,000.00
 - D) \$14,290.85

68) The following data are taken from the stockholders' equity section of the balance sheet of Driftwood Company:

Common Stock, \$10 Par Value, 60,000 Shares Authorized, 33,600 Shares Issued, 31,600 Shares Outstanding	\$ 336,000
Additional Paid-in Capital	168,000
Retained Earnings	140,000
Treasury Stock, 2,000 Shares	72,800

What was the average issue price per share of the common stock?

- A) \$36 40
 - B) \$10 00
 - C) \$15 00
 - D) \$50 40
- 69) If shares of common stock are issued at a market price greater than par value, the excess amount of par should be credited to:
- A) Common Stock
 - B) Treasury Stock
 - C) Retained Earnings
 - D) Additional Paid-in Capital
- 70) A company issues 1 million shares of common stock with a par value of \$0 05 for \$15 30 a share. The entry to record this transaction includes a debit to Cash for:
- A) \$50,000 and a credit to Common Stock for \$50,000
 - B) \$15,300,000 and a credit to Common Stock for \$15,300,000
 - C) \$15,300,000, a credit to Common Stock for \$50,000, and a credit to Additional Paid-in Capital for \$15,250,000
 - D) \$50,000, a debit to Capital Receivable for \$15,250,000, a credit to Common Stock for \$50,000, and a credit to Additional Paid-in Capital for \$15,250,000

- 167) Gladstone Company issues 103,000 shares of preferred stock for \$43 a share. The stock has fixed annual dividend rate of 8% and a par value of \$6 per share. If sufficient dividends are declared, preferred stockholders can anticipate receiving dividends of:
- A) \$354,320 each year
 - B) \$49,440 each year
 - C) 8% of net income each year
 - D) \$6 per share
- 168) Gladstone Company issues 200,000 shares of preferred stock for \$40 a share. The stock has fixed annual dividend rate of 5% and a par value of \$3 per share. If sufficient dividends are declared, preferred stockholders can anticipate receiving dividends of:
- A) \$10,000 each year
 - B) \$30,000 each year
 - C) 5% of net income each year
 - D) \$3 per share
- 169) Salmon, Incorporated issues 508,000 shares of preferred stock for \$34 a share. The stock has a fixed annual dividend rate of 8% and a par value of \$17 per share. The current price of the preferred stock is \$36 a share. If sufficient dividends are declared, preferred stockholders can anticipate receiving annual dividends of:
- A) \$1.36 per share
 - B) \$2.72 per share
 - C) \$2.88 per share
 - D) \$1.02 per share
- 170) Salmon, Incorporated issues 500,000 shares of preferred stock for \$60 a share. The stock has a fixed annual dividend rate of 5% and a par value of \$18 per share. The current price of the preferred stock is \$64 a share. If sufficient dividends are declared, preferred stockholders can anticipate receiving annual dividends of:
- A) \$0.90 per share
 - B) \$3.00 per share
 - C) \$3.20 per share
 - D) \$2.10 per share

- 256) King Corporation has one million shares outstanding with a par value of \$5. On August 24 of this year, it issued a 10% stock dividend when its stock price was \$25. As a result of this stock dividend, retained earnings:
- A) increased by \$500,000
 - B) increased by \$2,500,000
 - C) decreased by \$500,000
 - D) decreased by \$2,500,000
- 257) A corporation had 10,000 shares of \$10 par value common stock outstanding. The board of directors declared and issued a 10% stock dividend. The market value of the stock was \$20 per share. What is the journal entry to record this stock dividend?
- A) Debit Retained Earnings and credit Common Stock for \$20,000
 - B) Debit Retained Earnings and credit Common Stock for \$10,000
 - C) Debit Retained Earnings for \$20,000, credit Common Stock for \$10,000, and credit Additional Paid-in Capital for \$10,000
 - D) No entry is made to record the stock dividend
- 258) The term "capitalizing retained earnings" refers to:
- A) transferring from Retained Earnings to Common Stock the amount of a stock dividend
 - B) the recording of all costs to get an asset in place and ready for its intended use
 - C) the issuance of common stock at a price in excess of par value
 - D) stockholders contributing additional capital to a corporation
- 259) The journal entry to record a large stock dividend includes a debit to Retained earnings and a credit to:
- A) Retained Earnings
 - B) Common Stock
 - C) Cash
 - D) Additional Paid-in Capital

- 78) Patterson Company's Depreciation Expense is \$56,000 and the beginning and ending Accumulated Depreciation balances are \$420,000 and \$434,000, respectively. What is the cash paid for depreciation?
- A) \$56,000
 - B) \$14,000
 - C) \$0
 - D) \$70,000
- 79) Which of the following statements about the calculation of cash flows from operating activities under the indirect method is correct?
- A) When the indirect method is used, changes in current liabilities are subtracted while changes in current assets are added to convert net income to net cash flow from operating activities
 - B) When the indirect method is used, depreciation expense is added to net income as a step in the process of calculating net cash flow provided by operating activities
 - C) When the indirect method is used, changes in long-term assets are added to convert net income to net cash flow provided by operating activities
 - D) When the indirect method is used, changes in long-term liabilities are subtracted to convert net income to net cash flow provided by operating activities
- 80) When the indirect method is used, if accounts payable increases during the accounting period, the change in accounts payable is:
- A) added to the change in the cash account
 - B) added to net income
 - C) subtracted from net income
 - D) subtracted from the change in the cash account
- 81) When the indirect method is used, if a prepaid expense account increases during the accounting period, the change in the prepaid expense account is:
- A) added to the change in the cash account
 - B) added to net income
 - C) subtracted from net income
 - D) subtracted from the change in the cash account

- 166) During the current year, Kelso Construction had \$976,000 in cash sales and \$3,552,000 in credit sales. The Accounts Receivable balance was \$848,000 at the beginning of the year and \$680,000 at the end of the year. What was the total cash collected from customers during the year?
- A) \$4,696,000
 - B) \$4,528,000
 - C) \$4,360,000
 - D) \$3,720,000
- 167) If sales are \$680,000 and the beginning and ending balances of Accounts Receivable are \$34,400 and \$38,400, respectively, the cash collected from customers is:
- A) \$680,000
 - B) \$641,600
 - C) \$676,000
 - D) \$684,000
- 168) Southview Company's interest revenue for the period is \$14,600 and the beginning and ending interest receivable balances are \$1,620 and \$6,200, respectively, cash received for interest is:
- A) \$19,100
 - B) \$14,600
 - C) \$8,400
 - D) \$10,020
- 169) Southview Company's interest revenue for the period is \$28,000 and the beginning and ending interest receivable balances are \$2,640 and \$11,800, respectively, cash received for interest is:
- A) \$28,000
 - B) \$18,840
 - C) \$37,000
 - D) \$16,200

- 21) Horizontal analysis involves:
- A) Comparing individual financial statement line items with each other to understand the relationships between line items
 - B) Comparing individual financial statement line items to some benchmark, typically similar competitors' financial statement line items
 - C) Comparing individual financial statement line items over time
 - D) Comparing individual financial statement line items that have been arranged horizontally from highest to lowest dollar amounts
- 22) Which of the following statements is not true?
- A) Horizontal analyses help financial statement users recognize changes that unfold over time
 - B) Vertical analyses focus on relationships between items on the same financial statement
 - C) Ratio analyses focus on relationships between items on one or more of the financial statements
 - D) Horizontal analyses help financial statement users recognize changes that occur between companies
- 23) Financial statement analysis is useful for:
- A) evaluating a company's success in meeting the challenges that it faces
 - B) selecting the most appropriate accounting rules to follow
 - C) determining the market price of a company's stock
 - D) comparing US companies with foreign companies
- 24) Often loan agreements require the borrower to comply with certain requirements (i.e. loan covenants), such as maintaining a particular current ratio or limiting future borrowing. To decide if a company has complied with its loan covenants, a creditor would look at the company's:
- A) financial statements
 - B) chart of accounts
 - C) bank statements
 - D) charter

114) The following information comes from the balance sheets and income statements of Crosby Company:

As of or for the Year ended December 31

	Current Year	Prior Year
Cash	\$ 13,300	\$ 12,600
Accounts receivable	20,300	24,600
Inventory	34,600	31,500
Property and equipment	125,000	122,000
Current liabilities	36,200	38,700
Long-term liabilities	66,000	63,000
Stockholders' equity	91,000	89,000
Net sales revenues	379,000	328,000
Cost of goods sold	239,500	236,000
Operating expenses	93,000	88,000
Interest expense	8,250	10,500
Income tax expense	10,300	10,600

What is the times interest earned ratio for the current year?

- A) 0.9
- B) 3.4
- C) 4.4
- D) 5.6