

Acct 3110 Qualifying Example
Sample Questions

1. The primary objective of financial reporting is to provide financial information about the reporting company that is useful :
 - *a. to existing and potential investors, lenders, and other creditors in making decisions about providing resources to the company.
 - b. to the company's management to effectively and efficiently use its resources.
 - c. to regulatory authorities in determining if the company has complied with regulations.
 - d. to society in making decisions regarding the sustainability of the company's environmental practices.

2. Generally Accepted Accounting Principles (GAAP) are established by :
 - a. the Securities and Exchange Commission.
 - b. the Ways and Means Committee of the House of Representatives.
 - c. the Comptroller General of the United States.
 - *d. the Financial Accounting Standards Board.

3. Changes in stockholders' equity that result from the company's primary and usual business operations are :
 - *a. revenues and expenses.
 - b. losses and expenses.
 - c. cash inflows and cash outflows.
 - d. revenues and gains.

4. Which of the following terms describe probable future economic benefits obtained or controlled by a particular company as a result of past transactions or events?
 - a. performance
 - b. stockholders' equity
 - *c. asset
 - d. income

5. ABC Corporation issues 1,000 shares of \$10 par value common stock at \$12 per share. In recording the transaction, credits are made to:
 - a. Common Stock \$10,000 and Paid-in Capital in Excess of Stated Value \$2,000
 - *b. Common Stock \$10,000 and Paid-in Capital in Excess of Par Value \$2,000
 - c. Common Stock \$12,000
 - d. Common Stock \$10,000 and Retained Earnings \$2,000

6. The financial effect of a business transaction is initially recorded with:
 - *a. a journal entry
 - b. an invoice
 - c. a trial balance
 - d. a debit account

7. Which of the following descriptions about accrual basis accounting is INCORRECT?
 - a. Accrual basis accounting records both cash and non-cash transactions.
 - *b. Under accrual basis accounting, revenue is recognized when cash is received.
 - c. Generally Accepted Accounting Principles (GAAP) is based upon accrual-based accounting.
 - d. According to the matching principle under accrual basis accounting, expense is recognized in the

period in which related revenue is recognized.

8. Shadow's Cleaning Service provides weekly cleaning services for \$40 per week. In early January, the company collected a total of \$24,000 cash payments in advance from 50 customers for service of 3 months (12 weeks combined for January, February, and March). For the month of February, how much revenue should the company recognize under the cash basis and under the accrual basis, respectively?

- | | Cash basis | Accrual basis |
|-----|------------|---------------|
| a. | \$24,000 | \$8,000 |
| b. | \$8,000 | \$24,000 |
| c. | \$8,000 | \$8,000 |
| *d. | \$0 | \$8,000 |

9. Angelo's charges a customer \$200 per month for catering services. On January 1st, fifteen customers pre-paid for three months of catering beginning in January. For the month of January, how much revenue should Angelo's recognize under the cash basis and under the accrual basis, respectively?

- | | Cash basis | Accrual basis |
|----|------------|---------------|
| *a | \$9,000 | \$3,000 |
| b | \$0 | \$9,000 |
| c. | \$3,000 | \$0 |
| d. | \$4,500 | \$3,000 |

10. After transactions are recorded in the general journal, the usual next step in the accounting cycle is to:

- a. prepare financial statements.
- b. prepare an adjusted trial balance.
- *c. post transactions to the general ledger where an unadjusted trial balance can be prepared.
- d. prepare adjusting journal entries.

11. The usual final step in the accounting cycle is to:

- a. close temporary accounts.
- *b. prepare a post-closing trial balance for the next accounting period.
- c. prepare an adjusted trial balance.
- d. prepare financial statements.

12. Arnold Company provided services to its customers on credit for \$25,000. For Arnold Company, this transaction:

- a. increased expenses.
- b. decreased stockholders' equity
- *c. increased assets.
- d. increased liabilities.

13. Douglas Corporation paid its landlord \$6,000 for this month's rental on its warehouse. This transaction:

- *a. increased expenses.
- b. increased assets.
- c. decreased liability.
- d. increased stockholders' equity.

14. Abacus Corporation purchased equipment costing \$40,000. It paid \$10,000 in cash and signed a note payable for \$30,000. This transaction:

- a. increased assets by \$40,000, liabilities by \$30,000 and stockholders' equity by \$10,000.

- *b. increased assets and liabilities each by \$30,000.
- c. increased assets and stockholders' equity each by \$40,000.
- d. increased assets by \$40,000 and liabilities by \$30,000.

15. Atlas Corporation sold a used machine for less than its carrying value. This transaction:

- a. generated gain on sale of fixed assets.
- *b. generated loss on sale of fixed assets.
- c. generated revenue.
- d. generated expense.

16. Smith Corporation purchased \$65,000 of merchandise on credit. The company uses the perpetual method of recording inventory purchases. What would be the correct journal entry to record the purchase?

- a. Merchandise Inventory 65,000
 Cash 65,000
- *b. Merchandise Inventory 65,000
 Accounts Payable 65,000
- c. Purchases 65,000
 Accounts Payable 65,000
- d. Purchases 65,000
 Interest Payable 65,000

17. Jones Company sold merchandise on account for \$90,000. This merchandise cost \$52,000. The company uses the perpetual method of accounting for inventory. What would be the correct journal entry to record the transaction?

- a. Accounts Receivable 90,000
 Merchandise Inventory 52,000
 Gain on Sale 38,000
- b. Accounts Receivable 90,000
 Sales 90,000
- *c. Accounts Receivable 90,000
 Sales 90,000
 Cost of Goods Sold 52,000
 Merchandise Inventory 52,000
- d. Accounts Receivable 38,000
 Cost of Goods Sold 52,000
 Sales 90,000

18. Which of the following is not an adjusting entry?

- a. Utilities Expense
 Utilities Payable
- b. Interest Receivable
 Interest Revenue
- *c. Cash
 Unearned Rent Revenue
- d. Insurance Expense
 Prepaid Insurance

19. When a prepaid expense was initially recorded as a debit to an asset account, the subsequent required adjusting entry includes:

- a. a credit to a liability

- *b. a debit to an expense
- c. a debit to an asset
- d. a credit to an expense

20. On July 1, Edmond Office Equipment borrowed \$10,000 at an annual interest rate of 10 percent. Principal and interest are due on December 31. The company's fiscal year ends on October 31. What adjusting entry should be made on October 31?

- a. Prepaid Interest 333
 Interest Payable 333
- b. No entry
- *c. Interest Expense 333
 Interest Payable 333
- d. Interest Expense 500
 Interest Payable 500

21. Which of the following accounts normally is NOT considered a permanent account?

- a. Prepaid Insurance
- b Taxes Payable
- *c. Rent Expense
- d. Interest Receivable

22. Which of the following income statement elements is an economic inflow that occurs from sale of goods or services?

- a. net income
- *b. revenue
- c. comprehensive income
- d. gain

23. Which of the following is a current asset?

- a. goodwill
- b. equipment
- c. land held for investment
- *d. United States treasury bill maturing in 2 months

24. Webb Corporation's trial balance for July 31, the end of its fiscal year, included the following accounts:

| | |
|------------------------|----------|
| Accounts Receivable | \$35,000 |
| Inventories | 50,000 |
| Franchise | 35,000 |
| Short-term Investments | 50,000 |
| Prepaid Insurance | 5,000 |
| Note Receivable | 90,000 |
| Cash in Bank | 8,000 |

Prepaid insurance is a two-year policy that was purchased on July 31. The note receivable is an installment note that Webb Corporation will receive in three equal installments on December 31 of each year.

The amount that should be classified as current assets in the July 31 balance sheet is:

- *a. \$175,500
- b. \$210,500
- c. \$150,500
- d. \$153,000

25. Which of the following is classified as an operating activity on a statement of cash flows?

- a. sale of equipment
- b. issuance of common stock
- *c purchase of inventory
- d. payment of dividends

26. In a bank reconciliation, deposits in transit are:

- a. deducted from the book balance.
- b. added to the book balance.
- c. deducted from the bank balance.
- *d. added to the bank balance.

27. If sales revenues are \$400, cost of goods sold is \$310, and operating expenses are \$60, what is the gross profit?

- a. \$30
- *b. \$90
- c. \$340
- d. \$400

28. Which statement is INCORRECT concerning the adjusted trial balance?

- a. An adjusted trial balance proves the equality of the total debit balances and the total credit balances after all adjustments are made.
- b. The adjusted trial balance provides the basis for the preparation of financial statements.
- *c. The adjusted trial balance lists the account balances segregated by assets and liabilities.
- d. The company prepares the adjusted trial balance after it has journalized and posted the adjusting entries.

29. A trial balance may prove that debits and credits are equal, but

- a. an amount could be entered in the wrong account.
- b. a transaction could have been entered twice.
- c. a transaction could have been omitted.
- *d. all of these.

30. Posting is the process of:

- a. Analyzing the impact of the transaction on the accounting equation.
- b. Obtaining information about the external transactions from source documents.
- *c. Transferring the debit and credit information from the journal to individual accounts in the general ledger.
- d. Listing of all accounts and their balances at a particular date and showing the equality of the total debits and total credits.

31. A trial balance can best be explained as a list of:

- a. The income statement accounts used to calculate net income.
- b. Revenue, expense and dividend accounts used to show the balances of the components of retained earnings.

- c. The balance sheet accounts used to show the equality of the accounting equation.
- *d. All accounts and their balances at a particular date.

32. The unadjusted balance in the Allowance for Uncollectible Accounts before adjustment is \$1,000. The company estimates future uncollectible accounts to be \$5,000. At what amount will bad debt expense be reported on the income statement?

- *a. \$4,000
- b. \$5,000
- c. \$1,000
- d. \$6,000

33. On April 28th, Muggle Company sells goods to Potter Company for \$10,000 with terms of 2/10, net

30. On May 5th, Potter Company will pay Muggle Company:

- a. \$10,000
- *b. \$9,800
- c. \$9,000
- d. \$10,200

34. The entry to record a write-off of accounts receivable will include:

- a. A debit to bad debt expense.
- *b. A debit to allowance for uncollectible accounts.
- c. No entry because the allowance for uncollectible accounts will be adjusted at the end of the period.
- d. A debit to revenue.

35. On January 1, 2016, Keano Supply borrows \$10,000 from Shark Company by signing a 9% note due in eight months. What is the amount of interest revenue Shark Company should record on September 1, 2016?

- a. \$300
- *b. \$600
- c. \$900
- d. \$1,000

36. On January 1, 2016, Keano Supply borrows \$10,000 from Shark Company by signing a 9% note due on January 1 2018. What is the amount of interest revenue Shark Company should report in the income statement for the year ended December 31, 2016?

- a. \$600
- *b. \$900
- c. \$1,800
- d. \$10,000

37. At the beginning of the year, Super Company has inventory of \$4,500. During the year, the company purchased additional inventory of \$12,000. An inventory count at the end of the year indicated ending inventory of \$3,100. What amount will Super Company report as Cost of Goods Sold?

- a. \$12,000
- b. \$10,600
- c. \$16,500
- *d. \$13,400

38. Bat Company began the year with 4,000 units of inventory purchased for \$4.00 per unit. On March 1, Bat Company purchased another 10,000 units for \$5.00 per unit. Bat purchased another 6,000 units for

\$5.50 per unit on September 15. During the year Bat Company sold 15,000 units. Assuming Bat Company uses the LIFO inventory flow assumption, what was Bat Company's ending inventory?

- a. \$16,000
- b. \$27,500
- c. \$71,500
- *d. \$21,000

39. Bat Company began the year with 4,000 units of inventory purchased for \$4.00 per unit. On March 1, Bat Company purchased another 10,000 units for \$5.00 per unit. Bat purchased another 6,000 units for \$5.50 per unit on September 15. During the year Bat Company sold 15,000 units. Assuming Bat Company uses the FIFO inventory flow assumption, what was Bat Company's ending inventory?

- a. \$16,000
- *b. \$27,500
- c. \$71,500
- d. \$21,000

40. Goods in transit which are shipped f.o.b. shipping point should be

- a. included in the inventory of the shipping company.
- b. included in the inventory of the seller.
- *c. included in the inventory of the buyer.
- d. none of the above.

41. Diaz Corporation purchased a computer system for \$20,000. The company paid \$5,000 cash and issued a \$15,000 note payable for the entire balance. The journal entry to record this transaction includes:

- a. a debit to Expense for \$20,000.
- b. a credit to Accounts Payable for \$15,000.
- c. a credit to Cash for \$20,000.
- *d. a debit to Equipment for \$20,000.

42. For creditors who provide loans to a company, their information needs are primarily concerned with

- *a. the amount, timing and risks of future cash flows.
- b. management trustworthiness.
- c. accrual accounting.
- d. statements of financial accounting concepts.

43. Green Company sold a fixed assets for \$100 in cash at the end of 3 years after acquisition. The original acquisition cost for the fixed assets is \$1,000 and the company had recorded \$800 of accumulated depreciation on the asset. The journal entry to record the asset disposal is:

- a. Equipment 1,000
 Accumulated Depreciation 1,000
- b. Loss on disposal 200
 Equipment (Book Value) 200
- *c. Cash 100
 Accumulated Depreciation 800
 Loss on disposal 100
 Equipment 1,000
- d. Depreciation Expense 1,000
 Equipment 1,000

44. On September 1, 2016, Pizza Planet buys a delivery vehicle for \$12,000. It has an estimated life of ten

years and no expected salvage value. How much depreciation expense will be recorded for calendar year 2016 if Pizza Planet uses partial year straight-line depreciation based on the number of months in service?

- a. \$300
- *b. \$400
- c. \$600
- d. \$1,200

45. On January 1st, Tobin Inc. purchased a big truck and estimates that it will last five years and has an estimated salvage value of \$5,000. The truck's sticker price was \$45,000, but the company was able to purchase it for \$35,000. What would the depreciation expense be in the truck's third year using the straight-line method?

- a. \$9,000
- b. \$8,000
- c. \$7,000
- *d. \$6,000

46. On January 1st, Dot Pinkerton Inc. purchased a building for \$300,000 and estimates that it will last thirty years with no expected salvage value. What would the accumulated depreciation be at the end of the third year using the straight-line method?

- a. \$10,000
- *b. \$30,000
- c. \$270,000
- d. \$300,000

47. Which of the following is most likely to be true?

- a. A loss is recognized when a long-term fixed asset is sold and the proceeds received are more than its original cost.
- b. A loss is recognized when a long-term fixed asset is retired and the asset has been fully depreciated.
- *c. A gain is recognized when a long-term fixed asset is sold and the proceeds received are more than its carrying value.
- d. A gain is recognized when a long-term fixed asset is retired and there are no proceeds received.

48. We normally record a long-term asset at the

- a. costs of the asset only.
- *b. cost of the asset plus all costs necessary to get the asset ready for use.
- c. appraised value.
- d. cost of the asset, but subsequently adjusted up or down to appraised value.

49. Which of the following accounts is a permanent account?

- a. Bad Debt Expense
- b. Gain on Sale of Equipment
- *c. Patents
- d. Interest Expense

50. The employees of Lucid Laboratories are paid every two weeks on Friday. Total payroll is \$25,000 and covers 10 workdays. The end of the current month falls on the second Tuesday of the pay period. What is the adjusting journal entry to accrue payroll at the end of the month?

- a. Salaries Expense 17,500
 Prepaid Salaries 7,500
 Salaries Payable 25,000

| | | |
|----------------------|--------|--------|
| b. Prepaid Salaries | 7,500 | |
| Salaries Payable | | 7,500 |
| *c. Salaries Expense | 17,500 | |
| Salaries Payable | | 17,500 |
| d. Salaries Expense | 7,500 | |
| Salaries Payable | | 7,500 |

51. The income statement presents

- a. resources and equities of a company at a point in time.
- b. resources and equities of a company for a period of time.
- c. net earnings of a company at a point in time.
- *d. net earnings of a company for a period of time.

52. Olympic Equipment borrowed \$100,000 on November 1. The note matures in one year and the annual interest rate is 9%. What amount of interest expense will be accrued on December 31?

- *a. \$1,500
- b. \$9,000
- c. \$4,500
- d. \$750

53. Lemon Corporation issued 20,000 share of \$10 Par Value Common Stock for \$ 16 per share. The entry to record this issuance would include:

- *a. a debit to Cash \$320,000.
- b. a credit to Cash \$320,000.
- c. a credit to Common Stock \$320,000.
- d. none of the above.

54. Which of the following statements is false?

- a. Ownership of common stock gives the owner a voting right.
- b. The stockholders' equity section begins with paid-in capital.
- c. The authorization of capital stock does not result in a formal accounting entry.
- *d. The par value of a share of stock is usually equal to its market value.

55. Jenner Corporation paid its annual dividend. This transaction represents a(n):

- *a. distribution to stockholders.
- b. loss.
- c. expense.
- d. liability.

56. Peach Corporation began the year with Retained Earnings of \$45,000. During the year Peach had Net Income of \$15,000. Also, during the year Peach issued 4,000 share of \$10 par value Common Stock for \$12 per share. At the end of the year, Peach declared cash dividends of \$8,000. What is the year-end balance of Retained Earnings?

- *a. \$ 52,000
- b. \$ 68,000
- c. \$ 60,000
- d. none of the above

57. Accounts Receivable has a debit balance of \$2,400, and the Allowance for Bad Debts has a credit balance of \$300. A \$40 account receivable is written off. What is the amount of net receivables (net realizable value) after the write-off?
- *a. \$2,100
 - b. \$2,360
 - c. \$2,140
 - d. \$2,060

Use the following information to answer questions 58-62.

Marshall Company had the following information in 2016:

| | |
|--|-----------|
| Accounts receivable 12/31/16..... | \$ 14,000 |
| Allowance for uncollectible accounts 12/31/16 (before adjustment)..... | 800 |
| Credit service revenue during 2016 | 35,000 |
| Cash service revenue during 2016 | 16,000 |
| Collections from customers on account during 2016..... | 47,000 |

58. Uncollectible accounts are determined by the percent-of-sales method to be 2% of credit sales. How much is uncollectible-account expense for 2016?
- a. \$320
 - b. \$1,010
 - *c. \$700
 - d. 800
59. Uncollectible account expense for 2016 is \$1,450. What is the adjusted balance in the Allowance account at year-end for 2016?
- a. \$800
 - b. \$650
 - *c. \$2,250
 - d. \$1,450
60. If uncollectible accounts are determined by the aging-of-receivables method to be \$1,200, the uncollectible-account expense for 2016 would be
- a. \$1,200
 - b. \$2,000
 - c. \$700
 - *d. \$400
61. Refer to Question 4. Using the aging-of-receivables method, the balance of the Allowance account after the adjusting entry at year-end 2016 would be
- *a. \$1,200
 - b. \$700
 - c. \$400
 - d.\$2,000
62. Refer to Question 4. Using the aging-of-receivables method, the net realizable value of accounts receivable on the December 31, 2016, balance sheet would be
- *a. \$12,800
 - b. \$14,800
 - c. \$14,000
 - d. \$15,200

63. On April 28 when Muggle Company records the sale of goods on account to Potter Company with terms 2/10 n/30, which of the following should be included in journal entries under the net and gross method?

| | <u>Net Method</u> | <u>Gross Method</u> |
|-----|---------------------------|---------------------------|
| *a. | Sales Revenue 9,800 | Sales Revenue 10,000 |
| b. | Sales Revenue 10,000 | Sales Revenue 9,800 |
| c. | Account Receivable 10,000 | Future Sales Discount 200 |
| d. | Interest Revenue 200 | Sales Discount 200 |

64. On April 28th, Muggle Company sells goods to Potter Company for \$10,000 with terms of 2/10, net 30. On May 5th, Muggle receives cash payments from Potter. Which of the following will appear in Muggle Company's journal entry under the gross method on May 5th?

- a. Debit Cash 10,000
- b. Credit Sales Discounts 200
- *c. Debit Sales Discounts 200
- d. Credit Interest Revenue 200

65. On April 28th, Muggle Company sells goods to Potter Company for \$10,000 with terms of 2/10, net 30. On May 20th, Muggle receives cash payments from Potter. Which of the following will appear in Muggle Company's journal entry under the net method on May 20th?

- a. Debit Cash 9,800
- b. Credit Sales Revenue 200
- *c. Credit Interest Revenue (or Sales Discount Forfeited) 200
- d. Debit Accounts Receivable 200

66. On January 2013, Grande Communications purchased a new piece of equipment that cost \$25,000. The estimated useful life is 5 years and estimated residual value is \$2,500. If Grande uses the double-declining balance method, what is depreciation for 2014?

- a. 5,400
- *b. 6,000
- c. 8,333
- d. 15,000