

## Practice Quiz

1. Which inventory method generally results in costs allocated to ending inventory that will approximate their current cost?
  - a. LIFO
  - b. FIFO
  - c. Average Cost Method
  - d. Whichever method that produces the highest ending inventory figure
2. Which of the following is a typical example of a current liability?
  - a. Revenue collected in advance
  - b. Accrued interest payable
  - c. The current portion of a long-term debt
  - d. All of the above are correct
3. 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.
4. The unearned revenue account is classified as a(n)
  - a. asset.
  - b. revenue.
  - c. expense.
  - d. liability.
5. A \$20,000 machine is purchased by paying \$5,000 cash and signing a note payable for the remainder. The journal entry should include
  - a. credit to Note payable.
  - b. debit to Cash.
  - c. credit to Notes receivable.
  - d. credit to Machinery.
6. Which of the following statements is not true?
  - a. Expenses increase stockholders' equity.
  - b. Expenses have normal debit balances.
  - c. Expenses decrease stockholders' equity.
  - d. Expenses are a negative factor in the computation of net income.

7. A revenue
  - a. increases assets and liabilities.
  - b. increases assets and stockholders' equity.
  - c. increases assets and decreases stockholders' equity.
  - d. leaves total assets unchanged.
  
8. The cost principle requires that when assets are acquired, they be recorded at
  - a. market value.
  - b. the amount paid for them.
  - c. selling price.
  - d. list price.
  
9. The Torrez Corporation issues 1,000, 10-year bonds, 8%, \$1,000 bonds dated January 1, 2009, at 97. The journal entry to record the issuance will show a
  - a. debit to Cash of \$1,000,000.
  - b. credit to Discount on Bonds Payable for \$30,000.
  - c. credit to Bonds Payable for \$970,000.
  - d. debit to Cash for \$970,000.
  
10. An overstatement of the beginning inventory results in
  - a. no effect on the period's net income.
  - b. an overstatement of net income.
  - c. an understatement of net income.
  - d. a need to adjust purchases.
  
11. The collection of a \$500 account beyond the 2 percent discount period will result in a
  - a. debit to Cash for \$490.
  - b. credit to Accounts Receivable for \$500.
  - c. credit to Cash for \$500.
  - d. debit to Sales Discounts for \$10.
  
12. The primary purpose of the balance sheet is to
  - a. measure the net income of a business up to a particular point in time.
  - b. report the difference between cash inflows and cash outflows for the period.
  - c. report the financial position of the reporting entity at a particular point in time.
  - d. None of the above is correct.
  
13. ABC Toys received an order from a customer on March 1. The toys were shipped on March 18. The customer sent a check for full payment on April 10. ABC received the check on April 12 and deposited it in the bank account. ABC should record sales revenue related to this series of transactions on a.
  - a. March 1.
  - b. March 18.
  - c. April 10.
  - d. April 12.
  - e. None of the above is correct.

14. Assume a company uses the periodic inventory system and has a beginning merchandise inventory balance of \$5,000, purchases of \$75,000, and sales of \$125,000. The company closes its records once a year on December 31. In the accounting records, the merchandise inventory account would be expected to have a balance on December 31 prior to adjusting and closing entries that was
- equal to \$5,000.
  - more than \$5,000.
  - less than \$5,000.
  - indeterminate.
15. Failure to make an adjusting entry to recognize accrued salaries payable would cause an
- understatement of expenses and liabilities and an overstatement of stockholders' equity.
  - overstatement of expenses and liabilities.
  - understatement of expenses, liabilities and stockholders' equity.
  - understatement of assets and stockholders' equity.
  - understatement of expenses and stockholders' equity.
16. 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.
17. Treasury stock should be reported in the financial statements of a corporation as a(n) a.
- investment.
  - liability.
  - deduction from total, paid-in capital.
  - deduction from total paid-in capital and retained earnings.
18. Treasury shares plus outstanding shares equal
- authorized stock.
  - issued stock.
  - unissued stock.
  - distributable stock.
19. The effect of the declaration of a cash dividend by the board of directors is to
- | <u>Increase</u>         | <u>Decrease</u>             |
|-------------------------|-----------------------------|
| a. Stockholders' equity | Assets                      |
| b. Assets               | Liabilities                 |
| c. <u>Liabilities</u>   | <u>Stockholders' equity</u> |
| d. Liabilities          | Assets                      |
20. The net effects on the corporation of the declaration and payment of a cash dividend are to
- decrease liabilities and decrease stockholders' equity.
  - increase stockholders' equity and decrease liabilities.

- c. decrease assets and decrease stockholders' equity.
  - d. increase assets and increase stockholders' equity.
21. Regular dividends are declared out of
- a. Paid-in Capital in Excess of Par Value.
  - b. Treasury Stock.
  - c. Common Stock.
  - d. Retained Earnings.
22. Information that is not generally reported for each class of stock on the balance sheet is
- a. the market value.
  - b. the par value.
  - c. shares authorized.
  - d. shares issued.
23. The declaration of a stock dividend will
- a. increase paid-in capital.
  - b. change the total of stockholders' equity.
  - c. increase total liabilities.
  - d. increase total assets.
24. Which of the following statements is not true about a 2 for 1 stock split?
- a. The market value of the stock will probably decrease.
  - b. A stockholder with 5 shares before the split owns 10 shares after the split.
  - c. Par value per share is reduced to half of what it was before the split.
  - d. Total paid-in capital increases.
25. Algeo Company issued ten-year 9%, bonds payable in 2001 at a premium. During 2003, the company's accountant failed to amortize any of the bond premium. The omission of the premium amortization will
- a. not affect net income for 2003.
  - b. cause retained earnings at the end of 2003 to be overstated.
  - c. cause net income for 2003 to be overstated.
  - d. cause net income for 2003 to be understated.
26. Stockholders' equity is comprised of
- a. common stock and dividends.
  - b. common stock and retained earnings.
  - c. dividends and retained earnings.
  - d. net income and retained earnings.
27. Which financial statement would best indicate whether the company relies on debt or stockholders' equity to finance its assets? a. Statement of Cash Flows
- b. Retained Earnings Statement
  - c. Income Statement
  - d. Balance Sheet

28. The primary purpose of the statement of cash flows is to report
- a company's investing transactions.
  - a company's financing transactions.
  - information about cash receipts and cash payments of a company.
  - the net increase or decrease in cash.
29. A \$1,000 face value bond with a quoted price of 97 is selling for
- \$1,000.
  - \$970.
  - \$907.
  - \$97.
30. The interest expense recorded on an interest payment date is increased
- by the amortization of premium on bonds payable.
  - by the amortization of discount on bonds payable.
  - only if the bonds were sold at face value.
  - only if the market rate of interest is less than the stated rate of interest on that date.
31. On January 1, 2003, \$1,000,000, 5-year, 10% bonds, were issued for \$970,000. Interest is paid semiannually on January 1 and July 1. If the issuing corporation uses the straight-line method to amortize discount on bonds payable, the monthly amortization amount is
- \$5,808.
  - \$6,000.
  - \$484.
  - \$500.
32. Donna B Retailers accepted \$40,000 of Milton Bank Mastercard credit card charges for merchandise sold on August 1. Milton Bank charges 4% for its credit card use. The entry to record this transaction by Donna B Retailers will include a credit to Sales of \$40,000 and a debit(s) to
- Cash for \$38,400 and Service charge expense for \$1,600.
  - Accounts receivable for \$38,400 and Service charge expense for \$1,600.
  - Cash for \$40,000.
  - Accounts receivable for \$40,000.
33. In a perpetual inventory system,
- a LIFO cost of goods sold will be the same as in the periodic inventory system.
  - average costs are based entirely on unit cost simple averages.
  - a new average is computed under the average cost method after each sale.
  - FIFO cost of goods sold will be the same as in a periodic inventory system.
34. Luttrell Company purchased merchandise inventory with an invoice price of \$4,000 and credit terms of 2/10, n/30. What is the net cost of the goods if Luttrell Company pays within the discount period?
- \$4,000.
  - \$3,920.
  - \$3,600.
  - \$3,680.