Unit 2 Exam (Chapters 4-6 Review)

1. All of the following are required steps in the accounting cycle except:
a. journalizing and posting closing entries.
b. preparing an adjusted trial balance.
c. preparing a post-closing trial balance.
d. preparing a work sheet.

2. Miguel's Landscaping has performed $1,000 of lawn care services for a client. However, by the end of the accounting period no receivable had been recognized and no payment has been received by Miguel's. What adjusting entry must Miguel make at the end of the accounting period?
a. Debit Unearned Service Revenue and credit Service Revenue
b. Debit Cash and credit Accounts Receivable
c. Debit Accounts Receivable and credit Service Revenue
d. Debit Cash and credit Service Revenue

3. The revenue recognition principle dictates that revenue should be recognized in the accounting records:
a. when cash is received.
b. when the performance obligation is satisfied.
c. at the end of the month.
d. in the period that income taxes are paid.

4. Z Company had the following transactions during 20X1.
- Sales of $15,000 on account
- Collected $10,000 for services to be performed in 20X2
- Paid $3,000 cash in salaries
- Incurred, but did not pay for $5,000 other expenses
- Purchased an insurance policy for $8,000 at the end of December for 20X2

What is Z Company's 20X1 net income using accrual basis accounting?
a. $7,000
b. $7,500
c. $9,000
d. $12,000

5. Leyland Realty Company received a check for $18,000 on July 1, which represents a 6-month advance payment of rent on a building it rents to a client. Unearned Rent Revenue was credited for the full $18,000. Financial statements will be prepared on July 31. Leyland Realty should make the following adjusting entry on July 31:
a. debit Unearned Rent Revenue, $3,000; credit Rent Revenue, $3,000.
b. debit Rent Revenue, $3,000; credit Unearned Rent Revenue, $3,000.
c. debit Unearned Rent Revenue, $18,000; credit Rent Revenue, $18,000.
d. debit Cash, $18,000; credit Rent Revenue, $18,000.

6. A company purchased office supplies costing $5,000 and debited Supplies for the full amount. At the end of the accounting period, a physical count of office supplies revealed $900 still on hand. The appropriate adjusting journal entry to be made at the end of the period would be:
a. debit Supplies Expense, $5,900; credit Supplies, $5,900.
b. debit Supplies, $900; credit Supplies Expense, $900.
c. debit Supplies Expense, $4,100; credit Supplies, $4,100.
d. debit Supplies, $4,100; credit Supplies Expense, $4,100.

7. If a company fails to adjust for accrued expenses, what effect will this have on that month's financial statements?
a. Failure to make an adjustment does not affect the financial statements.
b. Expenses will be understated and net income and stockholders' equity will be overstated.
c. Assets will be overstated and net income and stockholders' equity will be under-stated.
d. Assets will be overstated and net income and stockholders' equity will be overstated

8. The following information is from the Income Statement of the Dirt Poor Laundry Service**:**

Revenues		
Service Revenue		$6,500
Expenses		
Salaries and wages expense	$ 2,450	
Advertising expense	500	
Rent expense	300	
Supplies expense	200	
Insurance expense	100	
Total expenses		3,550
Net Income		$2,950

The entry to close the Service Revenue account includes a:
a. debit to Service Revenue for $6,500.
b. credit to Service Revenue for $6,500.
c. debit to Income Summary for $6,500.
d. debit to Retained Earnings for $6,500.

9. At the beginning of the year, Uptown Athletic had an inventory of $600,000. During the year, the company purchased goods costing $2,250,000. If Uptown Athletic reported ending inventory of $750,000 their cost of goods sold would be
a. $1,500,000
b. $2,100,000
c. $3,600,000
d. $2,400,000

10. When sales of merchandise are made for cash, the transaction may be recorded by the following entry:
a. Debit Sales Revenue, credit Cash
b. Debit Cash, credit Sales Revenue
c. Debit Sales Revenue, credit Cash Discounts

d. Debit Sales Revenue, credit Sales Returns and Allowances

11. Under the perpetual system, cash freight costs incurred by the seller for the transporting of goods is recorded in which account?
a. Freight Expense
b. Freight-In
c. Inventory
d. Freight-Out

12. The entry to record the receipt of payment within the discount period on a sale of $100,000 with terms of 2/15, n/30 will include a
a. credit to Sales Discounts for $2,000.
b. debit to Cash for $100,000.
c. credit to Accounts Receivable for $100,000.
d. credit to Sales Revenue for $98,000.

13. If goods are shipped FOB shipping point then
a. no one has title to the goods until they are delivered.
b. the buyer has legal title to the goods as soon as the reach the public carrier.
c. the seller has legal title to the goods until they are delivered.
d. the transportation company has legal title to the goods while the goods are in transit.

14. In the credit terms of 2/10, n/30, the “30” represents the
a. number of days in the discount period.
b. full amount of the invoice.
c. number of days when the entire amount is due.
d. percent of the cash discount.

15. Livingston Company sells merchandise on account for $6,000 to Briggs Inc. on April 10 with credit terms 3/15, n/60. Briggs returns $1,000 of the merchandise on April 15. Briggs paid for the remainder of the goods within the discount period on April 20. What entry would Livingston make to record the receipt of payment from Briggs on April 20 if it uses the perpetual inventory system?

a.

	Debit	Credit
Cash	6,000	
Accounts Receivable		6,000

b.

	Debit	Credit
Cash	5,820	
Accounts Receivable		5,820

c.

	Debit	Credit
Cash	4,850	
Sales Discounts	150	
Accounts Receivable		5,000

d.

	Debit	Credit
Cash	5,000	
Sales Discounts		150
Accounts Receivable		4,850

16. Company T has the following inventory data:

February 1	Beginning inventory	50 units at $5
5	Purchases	100 units at $10
10	Sale	30 units
25	Purchases	50 units at $15
27	Sale	100 units

Assuming that a perpetual inventory system is used, what is ending inventory (rounded) under the average cost method for February? **(DO NOT ROUND INTERMEDIATE CALCULATIONS).**

a. $950.00
b. $450.75
c. $800.00
d. $720.59

17. Stilson Company purchased inventory as follows:

Mar. 5	200 units at $4.00
Mar. 15	300 units at $5.00
Mar. 25	400 units at $6.00

Stilson Company had beginning inventory of 100 units at $2.00 on March 1 and has 200 units on hand as of March 31. Assuming the specific identification method is used and ending inventory consists of 50 units from the Mar. 5 purchase, 100 units from the Mar. 15 purchase, and 200 units from the Mar. 25 purchase, cost of goods sold would be

a. $3,000
b. $1,900
c. $2,800
d. $2,100

18. The FIFO inventory method assumes that the cost of the latest units purchased are

a. the last to be allocated to cost of goods sold.
b. the first to be allocated to ending inventory.
c. the first to be allocated to cost of goods sold.
d. not allocated to cost of goods sold or ending inventory.

19. Sue Z Company uses a periodic inventory system. Details for the inventory account for the month of October are shown below:

Date	Explanation	Units	Unit Cost	Total Cost
Oct. 1	Beginning Inventory	100	$ 5.00	$ 500.00
Oct. 10	Purchase	150	$ 6.00	$ 900.00
Oct. 20	Purchase	200	$ 7.00	$ 1,400.00

Assume that on October 31, there is 120 units on hand. If the company uses FIFO, what is the value of ending inventory?

a. $1,960
b. $2,180
c. $620
d. $840

20. Harris Company developed the following information about its inventories in applying the lower of cost or market (LCM) basis in valuing inventories:

Product	Cost	Market
MT	$80,000	$79,000
ZY	60,000	65,000
TU	50,000	45,000
MN	20,000	22,000
WS	30,000	31,000

If Harris Company applies the LCM basis, the value of the inventory reported on the balance sheet would be

a. $234,000.
b. $240,000.
c. $242,000.
d. $248,000.

Solutions

1. **D**
2. **C**
3. **B**
4. **A**
5. **A**
6. **C**
7. **B**
8. **A**
9. **B**
10. **B**
11. **D**
12. **C**
13. **B**
14. **C**
15. **C**
16. **D**
17. **A**
18. **A**
19. **D**
20. **A**