FINAL EXAM REVIEW

The comprehensive final exam consists of 50 questions, approximately 2/3 of which are from chapters 10 through 12. The remaining questions are from chapters 1 through 9.

The questions for chapters 10 through 12 are similar in style and format to those on the first three exams; i.e., multiple choice questions on definitions, concepts and short problems.

The comprehensive questions for chapters 1 through 9 have a different focus as the materials from these chapters have already been tested in detail. The comprehensive questions focus on the key concepts from each chapter. The key concepts are the principles, concepts, definitions those that will be important in future courses and careers - the take-aways from this course.

For example, a non-accounting major may never need to know how to prepare a journal entry, but knowing what net income means and how it is calculated would be important for anyone working in business.

Practice Multiple Choice Questions

1. Net Income is

   A. the amount the company earned after expenses and dividends are subtracted from revenue.
   B. the amount by which assets exceed expenses.
   C. the amount by which assets exceed liabilities.
   D. the amount by which revenues exceed expenses.

2. Financial statements are most commonly prepared:

   A. daily.
   B. monthly, quarterly and annually.
   C. as needed.
   D. weekly.

3. Which of the following is true?

   A. Companies can choose to end their fiscal year on any date they feel is most relevant.
   B. Companies must end their fiscal year on March 31, June 30, September 30, or December 31.
   C. Companies can select any date except a holiday to end their fiscal year.
   D. Companies must end their fiscal year on December 31.

4. Assets:

   A. represent the amounts earned by a company.
   B. must equal the liabilities of a company.
   C. must equal the stockholders' equity of the company.
   D. represent the resources owned by a company.

5. Which of the following are the three basic elements of the balance sheet?

   A. assets, liabilities, and retained earnings.
   B. assets, liabilities, and contributed capital.
   C. assets, liabilities, and revenues.
   D. assets, liabilities, and stockholders' equity.

6. Which of the following would **not** affect a company's net income?

   A. A change in the company's income taxes.
   B. Changing the selling price of a company's product.
   C. Paying a dividend to stockholders.
   D. Advertising a new product.

7. Which of the following would be reported on the income statement for 2013?

   A. Supplies that were purchased and used in 2012 but paid for in 2013.
   B. Dividends that were paid in 2013.
   C. Supplies that were purchased in 2012, but used in 2013.
   D. Accounts receivable as of December 31, 2013.

8. A company began the year with Assets of $100,000, Liabilities of $20,000 and Stockholders' equity of $80,000. During the year Assets increased $55,000 and stockholders' equity increased $20,000. What was the change in Liabilities for the year?

   A. Increase of $75,000
   B. Increase of $35,000
   C. Decrease of $75,000
   D. Decrease of $35,000

9. Stockholders' equity is

   A. a liability of the business.
   B. an economic resource controlled by the business.
   C. the owners' claims on the business.
   D. the profit generated by the business.

10. Which of the following statements regarding debits and credits is always true?

    A. Debits decrease accounts while credits increase them.
    B. The total value of all debits recorded in the ledger must equal the total value of all credits recorded in the ledger.
    C. The total value of all debits to a particular account must equal the total value of all credits to that account.
    D. A debit balance of $500 in the cash account means that cash receipts exceeded cash payments by $500.

11. Which of the following would be listed as a current liability?

    A. Cash in the bank
    B. Notes payable due in two years
    C. Supplies
    D. Accounts payable

12. Which one of the following statements regarding the accrual basis and cash basis of accounting is true?

    A. Using the accrual basis of accounting, if payment is received before delivery of a good or service, revenue is recorded at the time the payment is received.
    B. Using the accrual basis of accounting, if payment is received after delivery of a good or service, an asset is recorded at the time the good or service was delivered.
    C. Using the cash basis of accounting, if payment is received before delivery of a good or service, net income is affected when goods or services are delivered.
    D. Using the cash basis, if payment is received after delivery of a good or service, unearned revenue is recorded.

13. Which one of the following statements regarding the trial balance is true?

    A. A trial balance is included in the full set of external financial statements.
    B. If debits equal credits in the unadjusted trial balance, there are no errors in preparing and posting journal entries.
    C. The balances for each account reported on an unadjusted trial balance are taken from the ending balances of all the accounts in the general ledger.
    D. GAAP allows companies to use either the cash basis or the accrual basis of accounting.

14. Your company orders and receives supplies in January, pays for them in February, provides services that use those goods up in March and is paid by customers in April. Using the accrual basis of accounting:

    A. Expenses are recorded in February and revenues are recorded in April.
    B. Expenses are recorded in February and revenues are recorded in March.
    C. Expenses and revenues are recorded in March.
    D. Expenses are recorded in January and revenues are recorded in April.

15. 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.

16. Which of the following is an error that would cause the trial balance to be out of balance?

    A. A journal entry was posted as a debit to Cash for $525 and a credit to Accounts Receivable for $552.
    B. A journal entry was posted as a debit to Cash and a credit to Sales Revenue when the company received a $400 payment from a customer on account.
    C. A purchase of supplies on account for $100 was posted as a debit to supplies for $10 and a credit to accounts payable for $10.
    D. A $350 transaction was not recorded at all.

17. Which of the following accounts does not have a normal debit balance?

A. Wages Expense
B. Service Revenue
C. Accounts Receivable
D. Cash

18. Which of the following statements regarding adjusting entries is not true?

A. Adjustments are needed to ensure that the accounting system includes all of the revenues and expenses of the period.
B. Adjustments help to ensure the related accounts on the balance sheet and income statement are up to date and complete.
C. Adjusting entries often affect the cash account.
D. Adjusting entries generally include one balance sheet and one income statement account.

19. Which of the following statements regarding the trial balance is correct?

A. The adjusted trial balance is prepared after the financial statements to verify that the numbers are accurate.
B. The primary purpose of the post-closing trial balance is to see whether revenues are greater than expenses.
C. The adjusted trial balance is a check that the accounting records are still in balance after posting all adjustments to the accounts.
D. The post-closing trial balance debit column total is the amount to be shown as Total Assets on the Balance Sheet.

20. Which of the following statements regarding timing issues associated with the closing entries is true?

A. Closing entries are recorded at the end of each reporting period which could be monthly, quarterly or annually.
B. After closing entries are posted, the balances of the income statement accounts will be zero.
C. Closing entries are made to zero out the balances of the permanent accounts on the balance sheet.
D. After closing entries are posted, the only temporary account with a balance is the Dividends Declared account.

21. One major difference between deferral and accrual adjustments is:

   A. Deferral adjustments involve previously recorded transactions and accruals involve previously unrecorded events.
   B. Deferral adjustments are made after taxes and accrual adjustments are made before taxes.
   C. Deferral adjustments are made annually and accrual adjustments are made monthly.
   D. Deferral adjustments are influenced by estimates of future events and accrual adjustments are not.

22. Which of these accounts would normally not be affected by an adjustment?

   A. Supplies.
   B. Revenues.
   C. Expenses.
   D. Cash.

23. Contra-accounts:

   A. Are used to increase the original value of the account they offset.
   B. Always appear in the same column of the trial balance as the account they offset.
   C. Are used to decrease the original value of the account they offset.
   D. Reduce the related asset to its fair value.

24. Which of the following will happen if the accrual adjustment entry is not made to record expenses incurred but not yet recorded?

   A. Both expenses and liabilities will be overstated.
   B. Both expenses and liabilities will be understated.
   C. Expenses will be understated and liabilities will be overstated.
   D. Expenses will be overstated and liabilities will be understated.

25. Which of the following statements regarding inventory counts is **not** true?

   A. Companies need to perform a physical count of their inventory at least yearly regardless of which inventory system is being used.
   B. A perpetual inventory system does not require a physical count during the accounting period to determine cost of goods sold.
   C. In a perpetual inventory system, the inventory count is compared to the inventory account balance to reveal shrinkage.
   D. If a company uses a perpetual inventory system and the inventory count at the end of the accounting period is greater than the balance in the inventory ledger account, there must have been shrinkage.

26. Which one of the following statements regarding sales discounts is true?

A. If a company offers a discount to encourage prompt payment and the discount is taken, the discount reduces the amount of Net Sales.
B. Credit terms of "2/10, n/30" mean that if payment is made in two days, a 10% discount may be taken; if not paid within two days, the full invoice price will be due in thirty days.
C. The terms "sales discounts" and "sales credits" are used interchangeably by a company.
D. Sales Discounts is an expense account.

27. When a customer returns for credit a defective product it had purchased, the seller would record the transaction using which of the following accounts?

A. Purchase Returns and Allowances
B. Sales Returns and Allowances
C. Sales
D. Sales Discounts

28. Which of the following items appearing on a bank reconciliation would require journal entries to bring the cash account up to date?

A. Deposits in transit.
B. Checks from customers returned as NSF.
C. Outstanding checks.
D. An error made by the bank in recording a deposit.

29. When preparing a bank reconciliation, interest received from the bank is:

A. Added the amount of interest to the balance per bank.
B. Deducted the amount of interest from the balance per books.
C. Added the amount of interest to the balance per books.
D. Deducted the amount of interest from the balance per bank.

30. The Tuck Shop began the current month with inventory costing $10,000, then purchased inventory at a cost of $35,000. The perpetual inventory system indicates that inventory costing $30,000 was sold during the month for $40,000. If an inventory count shows that inventory costing $14,500 is actually on hand at month-end, what amount of shrinkage occurred during the month?

A. $500.
B. $5,000.
C. $14,495.
D. $15,000.

31. A company sells goods at a selling price of $20,000. The cost of the goods is $15,000. Under a perpetual inventory system the journal entries to record the sale will include:

    A. $15,000 will be debited to Inventory and $15,000 will be credited to Sales.
    B. $15,000 will be debited to Cost of goods sold and $15,000 will be credited to Inventory.
    C. $15,000 will be credited to Inventory and $15,000 will be credited to Sales.
    D. $15,000 will be debited to Cost of goods sold and $15,000 will be credited to Sales.

32. When a company collects from a customer who pays within the discount period, the company:

    A. Debits a contra-revenue account.
    B. Debits a liability account.
    C. Credits a liability account.
    D. Debits a revenue account.

33. When goods are sold to a customer with credit terms of 2/15, n/30, the customer will:

    A. Receive a 15% discount if they pay within 2 days.
    B. Receive a 2% discount if they pay 15% of the amount due within 30 days.
    C. Receive a 15% discount if they pay within 30 days.
    D. Receive a 2% discount if they pay within 15 days.

34. The gross profit equation is:

    A. (Sales + Sales returns & allowances) - Cost of goods sold = Gross profit
    B. (Sales + Sales discounts) - Cost of goods sold = Gross profit
    C. (Sales - Sales returns & allowances - Sales discounts) - Cost of goods sold = Gross profit
    D. (Sales - Sales returns & allowances - Sales discounts) + Cost of goods sold = Gross profit

35. The principles of internal control include which of the following?

    A. Use only computerized systems.
    B. Establish responsibilities.
    C. Maintain perpetual inventory records.
    D. Eliminate fraud.

36. On a bank reconciliation, the amount of an unrecorded bank service charge is

    A. Added to the bank balance of cash.
    B. Added to the company's balance of cash.
    C. Deducted from the bank balance of cash.
    D. Deducted from the company's balance of cash.

37. Merchandise shipped FOB shipping point on the last day of the year should be included in:

A. The inventory balance of the seller.
B. The inventory balance of the buyer.
C. Neither the inventory balance of the buyer or the seller.
D. Both the inventory balance of the buyer and the seller.

38. Cash equivalents include which of the following:

A. 30-day bank certificates of deposit.
B. Petty cash.
C. 6-month U.S. treasury bills.
D. Savings account balances.

39. Which of the following statements regarding inventory calculations is true?

A. Beginning inventory + net purchases - ending inventory = cost of goods sold.
B. Goods available for sale + ending inventory = cost of goods sold.
C. Beginning inventory + net purchases - ending inventory = goods available for sale.
D. Goods available for sale + cost of goods sold = ending inventory.

40. Which of the following statements regarding inventory costing methods is true?

A. The LIFO method assumes that the costs for the newest goods (the last ones in) are used first and the older costs are left in ending inventory.
B. During a period of rising prices, LIFO results in a higher income tax expense than does FIFO.
C. International Financial Reporting Standards (IFRS) allow the use of LIFO but not FIFO.
D. In the U.S., if a company uses LIFO on the income tax return, it may use a different method for financial reporting.

41. Which of the following statements regarding the calculations used for the weighted average inventory costing method is true?

A. Under the weighted average cost method, if the goods in inventory were purchased at three different prices, the three different prices would be added and then divided by three to find the weighted average cost per unit.
B. When the weighted average inventory costing method is used, ending inventory and cost of goods sold are calculated using different costs per unit.
C. There is no difference in the calculations under the weighted average method whether a perpetual or periodic inventory system is used.
D. The weighted-average method will produce an inventory cost which is between the results of FIFO and LIFO inventory costing methods.

42. Which of the following statements regarding the lower of cost or market rule is **not** true?

A. The lower of cost or market rule sometimes causes the book value of inventory to be written down below cost, but will never cause the book value of inventory to be increased above cost.
B. The amount of inventory write-down is an expense which most companies report as cost of goods sold.
C. Lower of cost or market is an inventory cost method used to determine cost of goods sold and ending inventory.
D. The lower of cost or market rule is based on the conservatism concept.

43. The specific identification method would probably be most appropriate for which of the following goods?

A. Boxes of brass 4-inch drywall screws at Home Depot.
B. Bottles of suntan lotion in Wal-Mart's central warehouse.
C. Sets of tires at the Goodyear plant.
D. Diamond necklaces at a Tiffany & Co. jewelry store.

44. Which inventory costing method generally results in the most recent costs being assigned to ending inventory?

A. LIFO.
B. FIFO.
C. Weighted average cost.
D. Simple average cost.

45. For a merchandiser, inventory turnover refers to how many times:

A. During the period the company replaces its raw materials inventory.
B. The company buys and sells its inventory of goods.
C. The company produces and delivers its inventory of goods to customers.
D. The company orders merchandise.

46. A $15,000 overstatement of the 2014 ending inventory was discovered after the financial statements for the year were prepared. How would that inventory error impact the 2014 financial statements?

A. Current assets were overstated and net income was understated.
B. Current assets were understated and net income was understated.
C. Current assets were overstated and net income was overstated.
D. Current assets were understated and net income was overstated.

47. In applying the lower of cost or market method to inventory, market is defined as

A. Historical cost.
B. Current replacement cost.
C. Current sales price.
D. Weighted-average cost.

48. Which of the following statements regarding the allowance for doubtful accounts is true?

A. Under the aging of accounts receivable method, bad debt expense is calculated and then added to the beginning balance in the allowance for doubtful accounts.
B. The allowance for doubtful accounts is a contra-revenue account.
C. The allowance for doubtful accounts is credited when a specific write-off is recorded.
D. The allowance for doubtful accounts has a normal credit balance.

49. Which of the following statements regarding the recording of interest on notes receivable is true?

A. Interest on notes receivable is recorded as revenue only when the cash is received.
B. When a company receives an interest payment on a note, the entire payment is debited to interest receivable.
C. Interest on notes receivable is recognized when it is earned which is not necessarily when the interest is received in cash.
D. Interest earned but not yet received must be recorded in an adjusting entry which includes a debit to interest revenue.

50. An allowance for doubtful accounts is a contra-account that offsets:

A. bad debt expense.
B. cash.
C. net income.
D. accounts receivable.

51. The Grass is Greener Corporation provides $6,000 worth of lawn care on account during the month. Experience suggests that about 2% of net credit sales will not be collected. To record the potential bad debts, The Grass is Greener Corporation would:

A. debit Accounts Receivable and credit Allowance for Doubtful Accounts for $120.
B. debit Allowance for Doubtful Accounts and credit Bad Debt Expense for $120.
C. debit Bad Debt Expense and credit Allowance for Doubtful Accounts for $120.
D. debit Bad Debt Expense and credit Accounts Receivable for $120.

52. The Grass is Greener Corporation uses the allowance method and learns that a customer who owes $350 has gone bankrupt and payment will not be made. The Grass is Greener Corporation should:

A. debit Bad Debt Expense and credit Accounts Receivable for $350.
B. debit the Allowance for Doubtful Accounts and credit Accounts Receivable for $350.
C. debit Bad Debt Expense and credit Cash for $350.
D. debit Accounts Receivable and credit Bad Debt Expense for $350.

53. On the balance sheet, the allowance for doubtful accounts:

A. is included in current liabilities.
B. increases the reported net value of accounts receivable.
C. appears under the heading "Other Assets."
D. is deducted from accounts receivable.

54. On January 1, a company lends a corporate customer $80,000 at 6% interest. The amount of interest revenue that should be recorded for the first quarter is:

A. $4,800.
B. $1,200.
C. $400.
D. $1,600.

55. The direct write-off method for uncollectible accounts:

A. Ignores the matching principle.
B. Is an acceptable alternative method of recognizing bad debt expense under GAAP.
C. Results in higher bad debt expense for most companies.
D. May only be used by companies that do not extend credit to their customers.

56. Which of the following statements regarding capitalization is correct?

A. Capitalizing costs refers to the process of converting assets to expenses.
B. All costs incurred to acquire an asset may be capitalized.
C. Capitalizing a cost means to record it as an asset.
D. Capitalization results in an immediate decrease in net income.

57. The primary difference between ordinary repairs and extraordinary repairs is:

A. Ordinary repairs cost less.
B. Ordinary repairs are expenditures for routine maintenance and upkeep, whereas extraordinary repairs increase an assets economic usefulness in the future through increased efficiency, capacity, or longer life.
C. Extraordinary repairs only maintain the asset for a short time, whereas ordinary repairs increase the usefulness of assets beyond their original condition.
D. Extraordinary repairs are expenditures, not expenses.

58. The balance sheet category "intangible assets" includes:

A. Patents, trademarks, and franchises.
B. Equipment, land, and buildings.
C. Investments, receivables, and cash.
D. Goodwill, inventory, and vehicles.

59. When a company records depreciation it debits:

A. Liabilities and credits expenses.
B. Expenses and credits cash.
C. Expenses and credits a contra-asset account.
D. Long-lived assets and credits expenses.

60. The book value or carrying value of an asset is equal to:

A. Its acquisition cost less the accumulated depreciation from the acquisition date to the balance sheet date.
B. Its acquisition cost plus accumulated depreciation from the acquisition date to the balance sheet date.
C. The amount that could be obtained for the asset on the balance sheet date if it were sold.
D. The annual cost of carrying the asset in inventory.

61. Which of the following statements most appropriately describes the purpose of depreciating a long-lived tangible asset?

A. To indicate how the asset has physically deteriorated.
B. To show that the asset will eventually and gradually become obsolete.
C. To record that the asset's market value declines over time.
D. To match the cost of the asset to the period in which it generates revenue.

62. After the early years of an asset's life, accelerated depreciation methods:

A. Cause an asset to be carried at a higher book value than the straight-line method.
B. Pause an asset to be carried at a lower book value than the straight-line method.
C. Cause an asset to be carried at the same book value as the straight-line method.
D. Cannot be used if the resulting book value will be significantly different from that which would result from using the straight-line method.

63. A book manufacturing company sells equipment for $450,000 when the book value of the equipment is $400,000. The company would record the extra $50,000 as:

A. A gain, increasing net income and stockholders' equity.
B. Revenue, increasing net income and stockholders' equity.
C. Expenses, decreasing net income and stockholders' equity.
D. A loss, decreasing net income and stockholders' equity.

64. Freight costs incurred when a long-lived asset is purchased should generally be

A. Expensed in the period incurred.
B. Deducted from the accumulated depreciation account.
C. Added to the cost of the asset.
D. Not recorded in the accounts.

65. Accumulated depreciation is classified as a(an)

A. Expense.
B. Contra-asset.
C. Liability.
D. Stockholders' equity.

66. Which of the following statements regarding bond discounts or premiums is true?

A. A discount on a bond reduces the amount that the issuer has to repay to the lenders.
B. A premium on a bond increases the interest expense of the loan to the issuer.
C. A premium on a bond increases the amount that the issuer has to repay to the lenders.
D. A discount on a bond increases the interest expense of the loan to the issuer.

67. Current liabilities are due:

A. But not receivable for more than one year or the current operating cycle, whichever is longer.
B. But not payable for more than one year or the current operating cycle, whichever is longer.
C. And receivable within the current operating cycle or one year, whichever is longer.
D. And payable within the current operating cycle or one year, whichever is longer.

68. IBM is planning to issue $1,000 bonds with a stated interest rate of 7% and a maturity date of July 15, 2022. If interest rates rise in the economy so that similar financial investments pay 9%, IBM will:

A. Not be able to issue the bonds because no one will buy them.
B. Receive a higher issue price to compensate buyers for the lower stated interest rate.
C. Have to accept a lower issue price to attract buyers.
D. Have to reprint the bond certificates to change the stated interest rate to 9%.

69. Your company issues $500,000 in bonds at an issue price of 98. The company will record:

A. A debit of $490,000 to cash, a debit of $10,000 to a contra-liability account to reflect the discount, and a credit of $500,000 to bonds payable.
B. A debit of $490,000 to cash, a debit of $10,000 to a contra-asset account to reflect the discount, and a credit of $500,000 to bonds payable.
C. A debit of $500,000 to bonds payable, a credit of $10,000 to a contra-liability account to reflect the discount, and a credit to cash of $490,000.
D. A debit of $490,000 to bonds payable, a debit of $10,000 to a contra-asset account to reflect the discount, and a credit to cash of $500,000.

70. Because interest rates have fallen, a company retires bonds which had been issued at their face value of $200,000. The company bought the bonds back at 97. This retirement would be recorded with a:

A. Debit of $200,000 to Bonds Payable, a credit of $6,000 to Gain on Bond Retirement, and a credit of $194,000 to Cash.
B. Debit of $194,000 to Bonds Payable, a debit to Gain on Bond Retirement of $6,000, and a credit of $200,000 to Cash.
C. Debit of $200,000 to Bonds Payable, a credit of $6,000 to Interest Expense, and a credit of $194,000 to Cash.
D. Debit of $194,000 to Bonds Payable and a credit of $194,000 to Cash.

71. Your company sells $50,000 of bonds for an issue price of $48,000. Which of the following statements is correct?

A. The bond sold at a price of 96, implying a discount of $4,000.
B. The bond sold at a price of 48, implying a premium of $2,000.
C. The bond sold at a price of 48, implying a premium of $4,000.
D. The bond sold at a price of 96, implying a discount of $2,000.

72. Some bonds allow the borrower to repay the bond by issuing stock. These bonds are known as:

A. Convertible bonds.
B. Debenture bonds.
C. Callable bonds.
D. Coupon bonds.

73. Which of the following are generally recorded as liabilities on the balance sheet?

A. Remote likelihood liabilities.
B. Possible contingent liabilities.
C. Probable contingent liabilities.
D. Immaterial contingent liabilities.

74. When the amount of a contingent liability can be reasonably estimated and its likelihood is possible but not probable, the company should:

A. Include a description in the notes to the financial statements.
B. Record the amount of the liability times the probability of its occurrence.
C. Accrue the amount of the liability as a long-term liability.
D. Exclude any information about the contingent liability from its financial statements and notes.

75. Brief Respite, Inc., sold underwear made from a fabric that gave many of its customers a serious rash. The customers are suing the company in a class action suit and Brief Respite's attorneys think it is probable that the case will cost the company $2 million, although the verdict is not yet in. The company should:

A. Not include this information in its annual report.
B. Record a liability and a gain for $2 million.
C. Only explain the situation in the notes to the financial statements.
D. Record a liability and a loss for $2 million.

76. Which of the following statements best describes a contingent liability?

A. The amount of a contingent liability is known and will definitely have to be paid in the future.
B. A contingent liability is a potential liability that has arisen because of a past transaction or event, but its ultimate outcome will not be known until a future event occurs or fails to occur.
C. A contingent liability will only be incurred if a particular future event takes place.
D. A contingent liability is a potential liability that will be incurred if a natural disaster happens.

77. Which of the following statements regarding issued and outstanding stock is true?

A. Outstanding stock includes all stock issued by a corporation.
B. Issued stock equals the sum of outstanding stock and treasury stock.
C. Issued stock is equal to authorized stock.
D. Outstanding stock includes stock in the hands of investors, as well as treasury stock in the hands of the corporation.

78. Which of the following statements is **not** true of a corporation?

A. A corporation is taxed as a separate legal entity.
B. A corporation has easy transferability of ownership.
C. A corporation may have the ability to raise large amounts of capital.
D. A corporation's owners have unlimited liability.

79. Treasury stock:

A. Does not appear on the balance sheet.
B. Is a contra-equity account.
C. Is an asset account.
D. Is recorded as additional paid-in capital.

80. Stockholders' equity is:

A. The amount the company received for all stock when issued plus the amount of retained earnings minus treasury stock.
B. The amount the company received for all stock authorized plus the amount of retained earnings and treasury stock.
C. The par value the company received for all stock issued plus the amount of retained earnings minus treasury stock.
D. The amount the company received for all stock when issued minus the amount of retained earnings and treasury stock.

81. A stock dividend:

A. Is accounted for like a stock split.
B. Will reduce stockholders' equity like a cash dividend does.
C. Will not change any of the accounts within stockholders' equity.
D. Will reduce retained earnings like a cash dividend does.

82. Which of the following statements is true?

A. Stock splits and stock dividends both reduce the market price of a share, but only stock splits reduce the par value of a share.
B. Stock splits and stock dividends both reduce the market price of a share and the par value of a share.
C. Stock splits and stock dividends both reduce the market price of a share, but only stock dividends reduce the par value of a share.
D. Stock splits and stock dividends both reduce the market price of a share and reduce retained earnings.

83. Preferred stock differs from common stock in that preferred stock:

A. Has more voting power and, as such, greater control over the management of the company.
B. Is less risky because preferred stockholders are paid dividends before common stockholders.
C. Pays a tax-free dividend.
D. Has no preemptive rights or residual claims.

84. Par value of a stock refers to the

A. Issue price of the stock.
B. Value assigned to a share of stock in the corporate charter.
C. Market value of the stock.
D. Maximum selling price of the stock.

85. Which of the following statements is true about retained earnings?

A. Retained earnings represents cash available to pay dividends to stockholders.
B. Retained earnings cannot be restricted by loan covenants.
C. Retained earnings generally consists of cumulative net income less any net losses and dividends since inception.
D. Retained earnings is reduced by the par value of stock splits.

86. A stock dividend transfers:

A. Contributed capital to retained earnings.
B. Retained earnings to assets.
C. Contributed capital to assets.
D. Retained earnings to contributed capital.

87. Which of the following statements regarding the reporting of operating cash flows using the direct method is true?

A. Although most U.S. companies use the indirect method, the Financial Accounting Standards Board (FASB) prefers the direct method of accounting for cash flows from operating activities.
B. The FASB prefers the indirect method of calculating cash flows from operations because it gives a more accurate calculation of cash provided by operating activities.
C. The direct method results in a larger amount of cash flow from operating activities than does the indirect method.
D. The direct and indirect methods use different presentations for cash flows from investing and financing activities.

88. Which of the following statements regarding calculation of cash flows from operating activities under the indirect method is true?

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 from operating activities.
C. When the indirect method is used, gains on the sale of property, plant and equipment are added to convert net income to net cash flow from operating activities.
D. When the indirect method is used, changes in long-term liabilities are subtracted to convert net income to net cash flow from operating activities.

89. Which of the following statements regarding cash flows from investing activities is true?

A. The proceeds from sales of investments are reported as cash inflows from investing activities.
B. Cash flows from investing activities are calculated by making adjustments to net income.
C. Cash paid to acquire long-lived assets is reported as a cash inflow from investing activities.
D. Cash received from issuing a long-term payable is reported as a cash inflow from investing activities.

90. Which of the following would be included in cash flows from financing activities?

A. Cash proceeds from sales.
B. Cash received from a sale of land.
C. Dividends paid to stockholders.
D. Cash used to purchases of equipment.

91. When the indirect method is used, if accounts receivable increases during the accounting period, the change in accounts receivable is:

A. Added to the change in the cash account.
B. Subtracted from net income.
C. Added to net income.
D. Subtracted from the change in the cash account.

92. Assume a company uses the indirect method to prepare its statement of cash flows. If inventory decreases and unearned revenue increases during an accounting period, what does the company do with the changes in these accounts to calculate cash flows from operating activities?

A. Both are added to net income.
B. The change in inventory is added to net income; the change in unearned revenue is subtracted.
C. Both are subtracted from net income.
D. The change in unearned revenue is added to net income; the change in inventory is subtracted.

93. Depreciation is added back to net income in a statement of cash flows prepared using the indirect method because it:

A. Reduces net income but not cash.
B. Is a cash inflow.
C. Is a revenue.
D. Is a valuation concept.

94. A company purchases a $300,000 building, paying $200,000 in cash and signing a $100,000 promissory note. What will be reported on the statement of cash flows as a result of this transaction?

    A. A $300,000 cash outflow from investing activities.
    B. A $200,000 cash outflow from investing activities and a $100,000 cash inflow from financing activities.
    C. A $200,000 cash outflow from investing activities and a $100,000 noncash transaction.
    D. A $300,000 cash outflow from investing activities and a $100,000 cash inflow from financing activities.

95. Which of the following **is not** a difference between notes payable and accounts payable?

    A. Notes payable are not interest free while accounts payable may be interest free.
    B. Notes payable are often outstanding for longer periods of time than accounts payable.
    C. Notes payable are documented using formal written debt contracts while accounts payable are generally informal.
    D. Notes payable are reported as stockholders' equity on the balance sheet while accounts payable are reported as liabilities on the balance sheet.

96. The Rainbow House Painting Company has been contracted to strip, repair, prime and paint a house for $3,600 to be paid in installments as phases of the work are completed. Rainbow should recognize the revenue when

    A. The work begins.
    B. The first payment is received.
    C. Half of the work is complete and half of the payments have been received.
    D. The work is complete.

97. All of the following bank reconciliation items would result in an adjusting journal entry on the company's books **except**:

    A. Interest earned.
    B. Deposits in transit.
    C. Service charge.
    D. A customer's check returned NSF.

98. Which of the following bank reconciliation items would **not** result in an adjusting journal entry in the company's books?

    A. Service charge.
    B. Outstanding checks.
    C. A customer's check returned NSF.
    D. Interest earned on deposits.

99. Free cash flow is a positive cash flow:

A. Beyond what is needed to replace current property, plant, and equipment and pay dividends.
B. Across all three activity components of the statement of cash flows.
C. Beyond what has been allotted for future property, plant, and equipment replacement and expansion.
D. Across both financing and investing activities.

100. Current liabilities are expected to be

A. Converted to cash within one year.
B. Settled within one year.
C. Used in the business within one year.
D. Acquired within one year.

101. In a T-account, debits appear in what manner?

A. They are on the left under assets but on the right under liabilities and stockholders' equity.
B. They are always listed on the right.
C. They are always listed on the left.
D. They are on the right under assets but on the left under liabilities and stockholders' equity.

102. A credit would make which of the following accounts decrease?

A. Contributed Capital
B. Inventories
C. Notes Payable
D. Retained Earnings

103. Which of the following is normally true?

A. Assets have debit balances and liabilities have credit balances.
B. Assets and liabilities have credit balances.
C. Assets have credit balances and liabilities have debit balances.
D. Assets and liabilities have debit balances.

104. The normal balance of any account is the

A. Left side.
B. Right side.
C. Side which increases that account.
D. Side which decreases that account.

105. Which of the following statements is FALSE?

A. A transaction is an exchange or event that has a direct and measurable financial effect.
B. Every transaction has at least 2 effects.
C. Current assets are economic resources to be used or turned into cash within one year.
D. Notes payable is the account debited when money is borrowed from a bank using a promissory note.

106. Which of the following is **not** a recordable transaction?

A. Issued shares of stock to investors in exchange for cash contributions of $4,000.
B. Ordered inventory from suppliers for $3,000.
C. Sold equipment to another company for $3,000 and accepted a note from the company promising payment in 6 months.
D. Borrowed money from the bank by signing a promissory note for $2,000.

107. If certain assets are partially used up during the accounting period, then:

A. Nothing is recorded on the financial statements until they are completely used up.
B. A liability account is decreased or eliminated and an expense is recorded.
C. An asset account is decreased or eliminated and an expense is recorded.
D. Nothing is recorded on the financial statements until they are replaced or replenished.

108. If a firm's beginning inventory is $35,000, goods purchased during the period cost $120,000, and the cost of goods sold for the period is $140,000, what is the amount of the ending inventory?

A. $45,000
B. $20,000
C. $25,000
D. $15,000

109. An understatement of the ending inventory balance will cause:

A. Cost of goods sold to be overstated and net income to be understated.
B. Cost of goods sold to be overstated and net income to be overstated.
C. Cost of goods sold to be understated and net income to be overstated.
D. Cost of goods sold to be overstated and net income to be correct.

110. Passwords are an example of which internal control principle?

A. Segregate duties.
B. Restrict access.
C. Document procedures.
D. Independently verify.

111. Internal controls are concerned with:

A. Only manual systems of accounting.
B. The extent of government regulations.
C. Protecting against theft of assets and enhancing the reliability of accounting information.
D. Preparing income tax returns.

112. When a company that uses the allowance method writes off an actual bad debt:

A. Total assets decrease.
B. Total liabilities increase.
C. Total expenses increase and total revenues increase.
D. Total assets, revenues, and expenses remain the same.

113. If an uncollectible account, previously written off, is recovered:

A. Net accounts receivable increases.
B. Net accounts receivable decreases.
C. Net accounts receivable stays the same.
D. Total revenues increase.

114. Current liabilities could include all of the following **except**:

A. Accounts payable due in 30 days.
B. Notes payable due in 9 months.
C. A bank loan due in 18 months.
D. Any part of long-term debt due during the current period.

115. Which one of the following accounts would not necessarily be classified as a current liability?

A. Accounts payable
B. Accrued liabilities
C. Contingent liabilities
D. Current portion of long-term debt

116. Using straight-line amortization, when a bond is sold at a discount:

A. Bonds payable declines by a constant amount each year.
B. Interest expense declines by a constant amount each year.
C. Bonds payable, net of discount, declines by a constant amount each year.
D. Interest expense is a constant amount each year.

117. Using straight-line amortization, when a bond is sold at a premium:

A. The amortized premium is added to the interest payable to calculate interest expense.
B. Bonds payable rises by a constant amount each year.
C. Interest expense is calculated by subtracting the amortized premium from the interest payment that is to be made.
D. Interest expense rises each year.

118. A discount on bonds payable is reported in the financial statements as:

A. A reduction from the bond liability on the balance sheet.
B. An expense on the income statement.
C. An asset on the balance sheet.
D. Revenue on the income statement.

119. The three key pieces of information that are stated on a bond certificate are:

A. The interest payment, the face value of the bond, and the credit rating of the company.
B. The market interest rate, the price of the bond, and the maturity date.
C. The stated interest rate, the face value of the bond, and the maturity date.
D. The interest payment, the issue price of the bond, and the credit rating of the company.

120. Cash sales rung up by cashiers totaled $117,000. Cash in the drawer was counted and found to be $119,000. The journal entry to record the day's sales would include

A. A debit to cash for $117,000.
B. A credit to cash overage for $2,000.
C. A credit to sales for $119,000.
D. A debit to sales for $117,000.

Solutions to Multiple Choice Questions

1.	D	41.	D
2.	B	42.	C
3.	A	43.	D
4.	D	44.	B
5.	D	45.	B
6.	C	46.	C
7.	C	47.	B
8.	B	48.	D
9.	C	49.	C
10.	B	50.	D
11.	D	51.	C
12.	B	52.	B
13.	C	53.	D
14.	C	54.	B
15.	C	55.	A
16.	A	56.	C
17.	B	57.	B
18.	C	58.	A
19.	C	59.	C
20.	B	60.	A
21.	A	61.	D
22.	D	62.	B
23.	C	63.	A
24.	B	64.	C
25.	D	65.	B
26.	A	66.	D
27.	B	67.	D
28.	B	68.	C
29.	C	69.	A
30.	A	70.	A
31.	B	71.	D
32.	A	72.	A
33.	D	73.	C
34.	C	74.	A
35.	B	75.	D
36.	D	76.	B
37.	B	77.	B
38.	A	78.	D
39.	A	79.	B
40.	A	80.	A

81.	D
82.	A
83.	B
84.	B
85.	C
86.	D
87.	A
88.	B
89.	A
90.	C
91.	B
92.	A
93.	A
94.	C
95.	D
96.	D
97.	B
98.	B
99.	A
100.	B
101.	C
102.	B
103.	A
104.	C
105.	D
106.	B
107.	C
108.	D
109.	A
110.	B
111.	C
112.	D
113.	C
114.	C
115.	C
116.	D
117.	C
118.	A
119.	C
120.	B