BENNINGTON

ACC1140

Exam 2

1. Income from operations is gross profit less

a. financing expenses. b. operating expenses.

c. other expenses and losses. d. other expenses.

2. An enterprise which sells goods to customers is known as a

a. proprietorship. b. corporation.

c. retailer. d. service firm.

3. . Sales revenue less cost of goods sold is called

a. gross profit. b. net profit.

c. net income. d. marginal income.

4. Cost of goods sold is determined only at the end of the accounting period in

a. a perpetual inventory system.

b. a periodic inventory system.

c. both a perpetual and a periodic inventory system.

d. neither a perpetual nor a periodic inventory system

5. . Greyson Manufacturing purchased switches at an invoice price of $4,000 and term of 2/10, n/30. Half of the switches were labeled inaccurately and were returned immediately to the supplier. If Greyson pay the remaining amount of the invoice within the discount period, what should that amount be?

a. $2,080. b. $1,960.

c. $1,920. d. $1,200.

6. Audio Express Co. uses a perpetual inventory system and records purchases of merchandise at net cost. The company recently purchased 200 CDs at an invoice price of $6,000 and term of 2/10, n/30. Half of these discs were incorrectly labeled and were returned immediately to the supplier, If the discount period has expired, the journal entry to record payment of this invoice includes a

a. debit to Merchandise Inventory for $3,000.

b. credit to Cash for $3,000.

c. debit to an expense account for $60.

d. credit to cash for $2,940.

7. . In a perpetual inventory system, cost of goods sold is recorded

a. on a daily basis. b. on a monthly basis.

c. on an annual basis. d. with each sale.

8.. Sales revenues are usually considered earned when

a. cash is received from credit sales. b. an order is received.

c. goods have been transferred from the seller to the buyer.

d. adjusting entries are made.

9. The Sales Returns and Allowances account is classified as a(n)

a. asset account. b. contra asset account.

c. expense account. d. contra revenue account.

10. In preparing closing entries for a merchandising company, the Income Summary account will be credited for the balance of

a. sales revenue. b. inventory.

c. sales discounts. d. freight-out.

11. The factor which determines whether or not goods should be included in a physical count of inventory is

a. physical possession. b. legal title.

c. management's judgment.

d. whether or not the purchase price has been paid.

12. If goods in transit are shipped FOB destination

a. the seller has legal title to the goods until they are delivered.

b. the buyer has legal title to the goods until they are delivered.

c. the transportation company has legal title to the goods while the goods are in transit.

d. no one has legal title to the goods until they are delivered

13. Beginning inventory plus the cost of goods purchased equals

a. cost of goods sold. b. cost of goods available for sale.

c. net purchases. d. total goods purchased.

14. The LIFO 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.

15. . Which of the following is *not* a common cost flow assumption used in costing inventory?

a. First-in, first-out b. Middle-in, first-out

c. Last-in, first-out d. Average cost

16.. Two individuals at a retail store work the same cash register. You evaluate this situation as

a. a violation of establishment of responsibility.

b. a violation of segregation of duties.

c. supporting the establishment of responsibility.

d. supporting internal independent verification.

17. . The control principle related to not having the same person authorize and pay for goods is known as

a. establishment of responsibility. b. independent internal verification.

c. segregation of duties. d. rotation of duties.

18. The daily cash count of cash register receipts made by department supervisors is an example of

a. other controls. b. independent internal verification.

c. establishment of responsibility. d. segregation of duties.

19. The entry to replenish a petty cash fund includes a credit to

a. Petty Cash. b. Cash.

c. Freight-In. d. Postage Expense

20. A petty cash fund of $100 is replenished when the fund contains $4 in cash and receipts for $94. The entry to replenish the fund would

a. credit Cash Over and Short for $2.

b. credit Miscellaneous Revenue for $2.

c. debit Cash Over and Short for $2.

d. debit Miscellaneous Expense for $2.

21. A petty cash fund is generally established in order to

a. pay for all merchandise purchased on account.

b. pay employees’ wages.

c. make loans internally to employees.

d. pay relatively small expenditures.

22. . If the month-end bank statement shows a balance of $36,000, outstanding checks are $10,000, a deposit of $4,000 was in transit at month end, and a check for $600 was erroneously charged by the bank against the account, the correct balance in the bank account at month end is

a. $29,400. b. $30,000.

c. $30,600. d. $41,400.

23. Deposits in transit

a. have been recorded on the company's books but not yet by the bank.

b. have been recorded by the bank but not yet by the company.

c. have not been recorded by the bank or the company.

d. are checks from customers which have not yet been received by the company.

24. . If a check correctly written and paid by the bank for $418 is incorrectly recorded on the company's books for $481, the appropriate treatment on the bank reconciliation would be to

a. add $63 to the bank's balance. b. add $63 to the book's balance.

c. deduct $63 from the bank's balance.

d. deduct $418 from the book's balance.

25.. Internal control is defined, in part, as a plan that safeguards

a. all balance sheet accounts. b. assets.

c. liabilities. d. capital stock.

26.. The term "receivables" refers to

a. amounts due from individuals or companies.

b. merchandise to be collected from individuals or companies.

c. cash to be paid to creditors.

d. cash to be paid to debtors.

27. Trade accounts receivable are valued and reported on the balance sheet

a. in the investment section.

b. at gross amounts less sales returns and allowances.

c. at net realizable value.

d. only if they are not past due.

28. Under the allowance method, writing off an uncollectible account

a. affects only balance sheet accounts.

b. affects both balance sheet and income statement accounts.

c. affects only income statement accounts.

d. is not acceptable practice.

29. If a company fails to record estimated bad debts expense,

a. cash realizable value is understated.

b. expenses are understated.

c. revenues are understated.

d. receivables are understated.

30. The existing balance in Allowance for Doubtful Accounts is considered in computing bad debts expense in the

a. direct write-off method.

b. percentage of receivables basis.

c. percentage of sales basis.

d. percentage of receivables and percentage of sales basis.

31. The percentage of sales basis of estimating expected uncollectibles

a. emphasizes the matching of expenses with revenues.

b. emphasizes balance sheet relationships.

c. emphasizes cash realizable value.

d. is not generally accepted as a basis for estimating bad debts.

32. Under the direct write-off method of accounting for uncollectible accounts, Bad Debts Expense is debited

a. when a credit sale is past due.

b. at the end of each accounting period.

c. whenever a pre-determined amount of credit sales have been made.

d. when an account is determined to be uncollectible.

33.. Allowance for Doubtful Accounts on the balance sheet

a. is offset against total current assets.

b. increases the cash realizable value of accounts receivable.

c. appears under the heading "Other Assets."

d. is offset against accounts receivable

34. When an account is written off using the allowance method, the

a. cash realizable value of total accounts receivable will increase.

b. cash realizable value of total accounts receivable will decrease.

c. allowance account will increase.

d. cash realizable value of total accounts receivable will stay the same.

Problems

1. Jake’s Market recorded the following events involving a recent purchase of merchandise:

01/01/13 Received goods for $50,000, terms 2/10, n/30.

01/04/13 Returned $1,000 of the shipment for credit.

01/08//13 Paid $250 freight on the shipment.

01/09/13 Paid the invoice within the discount period.

01/15/13 Sold on account for $2,000 goods which cost $800

01/17/13 Customer returned $500 of the goods, which were defective.

Prepare the Journal Entries to record these transactions under both the Perpetual System and the Periodic System

B. Partridge Bookstore had 500 units on hand at January 1, costing $18 each. Purchases and sales during the month of January were as follows:

Date Purchases Sales

Jan. 14 375 @ $28

17 250 @ $20

25 250 @ $22

29 260 @ $32

Partridge does not maintain perpetual inventory records. According to a physical count, 365 units were on hand at January 31.

Calculate the ending inventory and the cost of goods sold under the FIFO method, the LIFO method and the Average Cost method. Prepare the Journal entry to record the Cost of Goods Sold Adjustment for the Average Cost Method.