|  |
| --- |
| 1. Income from operations is gross profit less  a. financing expenses.  b. operating expenses.  c. other expenses and losses.  d. other expenses.  Ans: B  2. Sales revenue less cost of goods sold is called  a. gross profit.  b. net profit.  c. net income.  d. marginal income.  Ans: A,  3. After gross profit is calculated, operating expenses are deducted to determine  a. gross margin.  b. net income.  c. gross profit on sales.  d. net margin.  Ans: B |

4. 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.

Ans: B

5. Glenn Company purchased merchandise inventory with an invoice price of $7,000 and credit terms of 2/10, n/30. What is the net cost of the goods if Glenn Company pays within the discount period?

a. $6,300

b. $6,440

c. $6,860

d. $7,000

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

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

Returned $1,000 of the shipment for credit.

Paid $250 freight on the shipment.

Paid the invoice within the discount period.

As a result of these events, the company’s inventory increased by

a. $48,020.

b. $48,265.

c. $48,270.

d. $49,250.

Ans: C

7. The collection of a $4,000 account within the 2 percent discount period will result in a

a. debit to Sales Discounts for $80.

b. debit to Accounts Receivable for $3,920.

c. credit to Cash for $3,920.

d. credit to Accounts Receivable for $3,920.

Arquette Company's financial information is presented below.

Sales $ 470,000 Cost of Goods Sold 270,000

Sales Returns and Allowances 20,000 Gross Profit ????

Net Sales ????

The missing amounts above are:

Net Sales Gross Profit

a. $450,000 $180,000

b. $430,000 $180,000

c. $470,000 $210,000

d. $430,000 $210,000

Ans: A, LO: 5

8. A company shows the following balances:

Sales Revenue $2,000,000

Sales Returns and Allowances 360,000

Sales Discounts 40,000

Cost of Goods Sold 1,120,000

What is the gross profit percentage?

a. 30%

b. 44%

c. 56%

d. 70%

Ans: A

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | 9. Beckman Enterprises purchased a depreciable asset on October 1, Year 1 at a cost of $100,000. The asset is expected to have a salvage value of $20,000 at the end of its five-year useful life. If the asset is depreciated on the double-declining-balance method, the asset's *book value* on December 31, Year 2 will be:       |  |  | | --- | --- | | A. | $36,000 |  |  |  | | --- | --- | | B. | $42,000 |  |  |  | | --- | --- | | **C.** | $54,000 |  |  |  | | --- | --- | | D. | $16,000 |  |  |  | | --- | --- | | E. | $90,000 |  |  |  |  |  |  | | --- | --- | --- | --- | --- | | **Period** | **BOY BV** | **DB Rate** | **Depreciation Expense** | **EOY BV** | | Year 1 | 100,000 | 40% | $40,000 \* 3/12 = $10,000 | $90,000 | | Year 2 | 90,000 | 40% | 36,000 | 54,000 |   Accordingly, the asset's book value at the end of Year 2 would be $54,000.  BOY BV = Beginning of Year Book Value  DB Rate = Declining Balance Rate of Depreciation (1/5 \* 2)  EOY BV = End of Year Book Value |

10. Martinez owns an asset that cost $87,000 with accumulated depreciation of $40,000. The company sells the equipment for cash of $42,000. At the time of sale, the company should record:

A) A loss on sale of $5,000. B) A loss on sale of $2,000. C) A gain on sale of $5,000. D) A gain on sale of $2,000. E) A loss on sale of $45,000.

11. The relevant factors in computing depreciation do not include: A) Depreciation method.

B) Salvage value. C) Useful life.

D) Cost.

E) Market value.

4. Beckman Enterprises purchased a depreciable asset on October 1, Year 1 at a cost of $100,000.

The asset is expected to have a salvage value of $20,000 at the end of its five-year useful life. If the asset is depreciated on the double-declining-balance method, the asset's *book value* on December

31, Year 2 will be:

A) $54,000 B) $42,000 C) $16,000 D) $36,000 E) $90,000

12. A company purchased a weaving machine for $190,000. The machine has a useful life of 8 years and a residual value of $10,000. It is estimated that the machine could produce 75,000 bolts of woven fabric over its useful life. In the first year, 15,000 bolts were produced. In the second year, production increased to 19,000 units. Using the units-of-production method, what is the amount of *depreciation expense* that should be recorded for the second year?

A) $23,750. B) $48,133. C) $22,500. D) $45,600. E) $81,600.

D

Explanation: Depreciation Expense = [(Cost - Salvage Value)/Estimated Useful Life (in units)] \* Units

Produced

Depreciation per unit = ($190,000 - $10,000)/75,000 units = $2.40 per unit

Depreciation Expense = $2.40 \* 19,000 = $45,600

13. Assume that Hydro-Slide, Inc. issues 2,000 shares of $1 par value common stock at $5 per share. As a result of this issue, Hydro’s liabilities would increase:



$8,000

$10,000

$2,000

$0

Using the same facts as question 1, Hydor-Slide’s assets would increase:

$8,000

$10,000

$2,000

$0



14. Assume that Nomar, Inc. issues 2,000 shares of $5 stated value no par value common at $8 per share. As a result of the transaction the Company’s stock holders equity would increase:

$16,000



$10,000

$6,000

$0



15. Using the same facts as question 14, the Nomar’s assets would increase:



$16,000



$10,000

$6,000

$0

Which of the following would be a use for the Statement of Cash Flows

The condition of the entities fixed assets.

Return on investments.

Cash lost due to poor internal controls.

The company’s ability to pay dividends.

16. Assume the following sales data for a company:

2016 $1,050,000

2015 950,000

2014 800,000

2013 650,000

What is the percentage increase in sales from 2013 to 2014?

a. 10.5%

b. 23.1%

c. 38.5%

d. 46.2%

17. Assume the following sales data for a company:

2016 $1,050,000

2015 950,000

2014 800,000

2013 650,000



What is the percentage increase in sales from 2013 to 2016?

a. 10.5%

b. 61.5%

c. 46.2%

d. 18.8%

18. Which of the following would be a use for the Statement of Cash Flows

The condition of the entities fixed assets.

Return on investments.

Reasons for difference between net income and net cash provided (used) by operating activities.

Cash lost from theft due to poor internal controls.

19. Assume the following sales data for a company:

2016 $1,050,000

2015 950,000

2014 800,000

2013 650,000

What is the percentage increase in sales from 2014 to 2015?

a. 10.5%

b. 61.5%

c. 46.2%

d. 18.8%

20. Ranier Company is authorized to issue 10,000 shares of 8%, $100 par value preferred stock and 500,000 shares of no-par common stock with a stated value of $1 per share. If Ranier issues 5,000 shares of preferred stock for land with an asking price of $600,000 and a market value of $540,000, which of the following would be the journal entry for Ranier to record?

a. Land 500,000

Preferred Stock 500,000

b. Land 540,000

Preferred Stock 540,000

c. Land 600,000

Preferred Stock 500,000

Paid-in Capital in Excess of Par-Preferred 100,000

d. Land 540,000

Preferred Stock 500,000

Paid-in Capital Excess of Par-Preferred 40,000

21. Which of the following would NOT be a use for the Statement of Cash Flows



Entity’s ability to generate future cash flows.

Entity’s ability to pay dividends and obligations.

Reasons for difference between net income and net cash provided (used) by operating activities.

Cash lost from theft due to poor internal controls.

Net Sales $300

Cost of Goods Sold 180

Gross Profit 120

Operating Expenses 45

Net Income $75

22 Skiped

23. Using vertical analysis, what percentage is assigned to Cost of Goods Sold?

a. 40%

b. 60%

c. 100%

d. None of these answer choices are correct.

Ans: b

24. Saira, Inc. has the following income statement (in millions):

SAIRA, INC.

Income Statement

For the Year Ended December 31, 2014

Net Sales $300

Cost of Goods Sold 180

Gross Profit 120

Operating Expenses 45

Net Income $75

Using vertical analysis, what percentage is assigned to Net Income?

a. 625%

b. 40%

c. 25%

d. None of these answer choices are correct.

Ans: c



25. Blaney Clothing Store had a balance in the Accounts Receivable account of $437,500 at the beginning of the year and a balance of $500,000 at the end of the year. Net credit sales during the year amounted to $3,000,000. The average collection period of the receivables in terms of days was

a. 53.2 days.



b. 365 days.

c. 60.1 days.



d. 57 days.

Ans: d

26. Turnbull Department Store had net credit sales of $18,000,000 and cost of goods sold of $15,000,000 for the year. The average inventory for the year amounted to $2,500,000. The average number of days in inventory during the year was

a. 365 days.



b. 60.8 days.

c. 50.7 days.

d. 30 days.

.

Ans: b,

27. The current assets of Myers Company are $250,000. The current liabilities are $100,000. The current ratio expressed as a proportion is

a. 250%.

b. 2.5 : 1

c. .25 : 1

d. $250,000 ÷ $100,000.

Ans: b



28. The following data are available for Sampson Corporation.

Net income $200,000

Depreciation expense 60,000

Dividends paid 90,000

Loss on sale of land 15,000

Decrease in accounts receivable 30,000

Decrease in accounts payable 45,000

Net cash provided by operating activities is:

a. $140,000.

b. $260,000.

c. $160,000.

d. $240,000.

Ans: b, LO: 3, Bloom: AP, Difficulty: Hard, Min: 5, AACSB: None, AICPA BB: Legal/Regulatory, AICPA FN: Reporting, AICPA PC: Problem Solving, IMA: Reporting

Solution; $200,000 + $60,000 + $15,000 + $30,000 − $45,000 = $260,000

29. The following data are available for Alamo Corporation.

Sale of land $225,000

Sale of equipment $130,000

Issuance of common stock 140,000

Purchase of equipment 70,000

Payment of cash dividends 120,000

Net cash provided by investing activities is:

a. $285,000.

b. $260,000.

c. $305,000.

d. $425,000.

Ans: a, LO: 3, Bloom: AP, Difficulty: Hard, Min: 5, AACSB: None, AICPA BB: Legal/Regulatory, AICPA FN: Reporting, AICPA PC: Problem Solving, IMA: Reporting

Solution; $225,000 + $130,000 − $70,000 = $285,000

30. The following data are available for Two-off Company.

Increase in accounts payable $120,000

Increase in bonds payable 300,000

Sale of investments 150,000

Issuance of common stock 160,000

Payment of cash dividends 90,000

Net cash provided by financing activities is:

a. $180,000.

b. $370,000.

c. $360,000.

d. $420,000.

Ans: b, LO: 3, Bloom: AP, Difficulty: Hard, Min: 5, AACSB: None, AICPA BB: Legal/Regulatory, AICPA FN: Reporting, AICPA PC: Problem Solving, IMA: Reporting

Solution; $300,000 + $160,000 − $90,000 = $370,000

31. Adama Company reported a net loss of $6,000 for the year ended December 31, 2014. During the year, accounts receivable increased $15,000, merchandise inventory decreased $12,000, accounts payable decreased by $20,000, and depreciation expense of $12,000 was recorded. During 2014, operating activities

a. used net cash of $17,000.

b. used net cash of $29,000.

c. provided net cash of $24,000.

d. provided net cash of $21,000.

Ans: a, Solution; ($6,000) + ($15,000) + $12,000 + ($20,000) +$12,000 = ($17,000)

32. The net income reported on the income statement for the current year was $245,000. Depreciation was $40,000. Account receivable and inventories decreased by $12,000 and $35,000, respectively. Prepaid expenses and accounts payable increased, respectively, by $1,000 and $8,000. How much cash was provided by operating activities?

a. $296,000

b. $339,000

c. $323,000

d. $311,000

Ans: b Solution; $245,000 + $40,000 + $12,000 + $35,000 − $1,000 + $8,000 = $339,000

33. Wilson Company reported net income of $105,000 for the year ended December 31, 2014. During the year, inventories decreased by $15,000, accounts payable decreased by $20,000, depreciation expense was $18,000 and a gain on disposal of equipment of $9,000 was recorded. Net cash provided by operating activities in 2014 using the indirect method was

a. $101,000.

b. $109,000.

c. $120,000.

d. $118,000.

Ans: b, Solution; $105,000 + $15,000 − $20,000 + $18,000 − $9,000 = $109,000