

Name: \_\_\_\_\_ Date: \_\_\_\_\_

1. Analyze the following T-account in the ledger of Moxy Pool Supply Company

Mdse. Inventory
5,000   400

If \$5,000 in the Inventory account represents merchandise purchased from a supplier, we can assume the company uses the

- A) periodic inventory method and \$400 may represent the missing inventory at year end.
- B) periodic inventory method and \$400 may represent cost of goods sold.
- C) perpetual method and \$400 may represent a payment to a supplier
- D) perpetual inventory method and \$400 may represent a purchase return.

2. The following T-accounts are from the ledger of Hall Company. Hall uses the periodic inventory system.

Purchases	Accounts Payable
6,000	6,000

Which of the following is true about Hall Company?

- A) When merchandise is sold, the purchases account will be credited for cost of goods sold.
- B) The accounts indicate that Hall returned \$6,000 of merchandise to a supplier.
- C) The balance in the purchases account will appear on the balance sheet at year end.
- D) None of the above

3. The credit terms, 2/10, n/30 indicate that a:

- A) ten percent discount can be deducted if the invoice is paid within two days following the date of sale.
- B) two percent discount can be deducted for a period up to thirty days following the date of sale.
- C) two percent discount can be deducted if the invoice is paid before the tenth day following the date of the sale.
- D) two percent discount can be deducted if the invoice is paid after the tenth day following the sale, but before the thirtieth day.

4. Gutter Company sold merchandise costing \$1,600 for \$2,500 cash. The merchandise was later returned by the customer. If the perpetual inventory method is used, what effect will the sales return have on the accounting equation?
- A) Total assets and total equity increase by \$900.
  - B) Total assets increase by \$1,600 and total equity is decreased by \$2,500.
  - C) Total assets and total equity decrease by \$2,500.
  - D) Total assets and total equity decrease by \$900.

Use the following to answer question 5:

Assume the perpetual inventory method is used.

- 1) Foosy Company purchased merchandise inventory that cost \$8,000 under terms of 2/10, n/30 and F.O.B. shipping point.
  - 2) Freight cost of \$500 to have the merchandise delivered was paid in cash.
  - 3) Payment was made to supplier within ten days.
  - 4) All of the goods were sold to customers on account for \$12,000 and delivered under terms F.O.B. shipping point with freight cost amounting to \$600.
5. The gross margin from the transactions of Foosy Company is
- A) \$3,060.
  - B) \$4,000.
  - C) \$3,660.
  - D) None of the above.
6. George Co. had beginning inventory of \$400 and ending inventory of \$200. George Co. had cost of goods sold amounting to \$1,600. Based on this information, George Co. must have purchased inventory amounting to:
- A) \$ 1,400.
  - B) \$ 1,600.
  - C) \$ 1,800.
  - D) \$ 2,200.

7. The following information for the year 2006 is taken from the accounts of Thornwood Company. The company uses the periodic inventory method.

Inventory, December 31, 2005	\$2,000
Purchases	10,000
Purchases Returns and Allow.	200
Purchase Discounts	100
Freight on goods purchased under terms FOB shipping point	400
Freight on goods sold under terms FOB destination	200
Cost of Goods Sold	7,100

Based on this information, the inventory at December 31, 2006 is

- A) \$4,600
  - B) \$5,000
  - C) \$4,900
  - D) \$12,100
8. Allison Company uses the perpetual method. The company's inventory account had a \$5,500 balance as of December 31, 2003. A physical count of inventory shows only \$5,300 of merchandise in stock at December 31, 2003. The entry to recognize the missing inventory will
- A) decrease assets.
  - B) increase expense.
  - C) decrease equity.
  - D) All of the above.
9. Ainlay Company purchased \$6,500 of merchandise inventory on account. Ainlay uses the perpetual inventory method . Which of the following entries would be required to record this transaction?
- A)     Accounts Payable                                 6,500  
           Purchases   6,500
  - B)     Inventory   6,500  
           Accounts Payable                                     6,500
  - C)     Cost of Goods Sold                                 6,500  
           Accounts Payable                                     6,500
  - D)     Accounts Payable                                     6,500  
           Inventory   6,500

10. If merchandise costing \$5,000, with terms 2/10, n/30, is paid within 10 days, the amount of the purchase discount is \$100.
  - A) True
  - B) False
11. Freight costs incurred by the seller on outgoing merchandise are an operating expense to the seller.
  - A) True
  - B) False
12. When using a periodic inventory system, which statement concerning the computation of cost of goods sold is correct?
  - A) The amount of ending inventory is determined on the last day of the accounting period.
  - B) Cost of Goods Available for Sale includes net purchases plus the ending inventory.
  - C) Purchases represent cash paid for purchases during the accounting period.
  - D) Freight in is ignored.
13. The collection of a \$900 account beyond the 2 percent discount period will result in a
  - A) debit to cash for \$882.
  - B) debit to Accounts Receivable for \$900.
  - C) debit to Cash for \$900.
  - D) debit to Sales Discounts for \$18.
14. The collection of a \$600 account beyond the 2 percent discount period will result in a
  - A) debit to cash for \$588.
  - B) credit to Accounts Receivable for \$600.
  - C) credit to Cash for \$600.
  - D) debit to Sales Discounts for \$12.

15. Jake's Market recorded the following events involving a recent purchase of merchandise:

Received goods for \$20,000, terms 2/10, n/30.

Returned \$400 of the shipment for credit.

Paid \$100 freight on the shipment.

Paid the invoice within the discount period.

As a result of these events, the company's merchandise inventory

A) increased by \$19,208.

B) increased by \$19,700.

C) increased by \$19,306.

D) increased by \$19,308.

16. Zach'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 merchandise inventory

A) increased by \$48,020.

B) increased by \$49,250.

C) increased by \$48,265.

D) increased by \$48,270.

17. Under the perpetual inventory system, in addition to making the entry to record a sale, a company would

A) debit Merchandise Inventory and credit Cost of Goods Sold.

B) debit Cost of Goods Sold and credit Purchases.

C) debit Cost of Goods sold and credit Merchandise Inventory.

D) make no additional entry until the end of the period.

18. Ellis Company sells merchandise on account for \$1,500 to Thomas Company with credit terms of 2/10, n/30. Thomas Company returns \$500 of merchandise that was damaged, along with a check to settle the account within the discount period. What entry does Ellis Company make upon receipt of the check?

A)

Cash	1,000
Accounts Receivable	1,000

B)

Cash	980
Sales Returns and Allowances	520
Accounts Receivable	1,500

C)

Cash	980
Sales Returns and Allowances	500
Sales Discounts	20
Accounts Receivable	1,500

D)

Cash	1,470
Sales Discounts	30
Sales Returns and Allowances	500
Accounts Receivable	1,000

19. Holt Company sells merchandise on account for \$2,000 to Jones Company with credit terms of 2/10, n/30. Jones Company returns \$400 of merchandise that was damaged, along with a check to settle the account within the discount period. What is the amount of the check?

- A) \$1,960
- B) \$1,968
- C) \$1,600
- D) \$1,568

Use the following to answer questions 20-22:

A company just starting business made the following four inventory purchases in June:

June	1	150 units	\$ 780
June	10	200 units	1,170
June	15	200 units	1,260
June	28	150 units	<u>990</u>
			<u>\$4,200</u>

A physical count of merchandise inventory on June 30 reveals that there are 200 units on hand.

20. Using the LIFO inventory method, the value of the ending inventory on June 30 is
  - A) \$1,040.00
  - B) \$1,072.50
  - C) \$1,305.00
  - D) \$1,320.00
21. Using the FIFO inventory method, the amount allocated to ending inventory for June is
  - A) \$1,040.00
  - B) \$1,072.50
  - C) \$1,305.00
  - D) \$1,320.00
22. Using the average cost method, the amount allocated to the ending inventory on June 30 is
  - A) \$1,170.
  - B) \$1,320.
  - C) \$1,260.
  - D) \$1,200.

Use the following to answer questions 23-25:

A company just starting business made the following four inventory purchases in June:

June	1	150 units	\$ 825
June	10	200 units	1,120
June	15	200 units	1,140
June	28	150 units	<u>885</u>
			<u>\$3,970</u>

A physical count of merchandise inventory on June 30 reveals that there are 250 units on hand.

23. Using the LIFO inventory method, the value of the ending inventory on June 30 is
- A) \$1,385.
  - B) \$1,425.
  - C) \$1,455.
  - D) \$1,475.
24. Using the FIFO inventory method, the amount allocated to ending inventory for June is
- A) \$1,385.
  - B) \$1,425.
  - C) \$1,455.
  - D) \$1,475.
25. Using the average cost method, the amount allocated to the ending inventory on June 30 is
- A) \$1,418.
  - B) \$1,475.
  - C) \$1,425.
  - D) \$1,400.

Use the following to answer questions 26-30:

**Use the following inventory information for the month of July**

July	1	Beginning inventory	20 units at \$19	\$ 380
	7	Purchases	70 units at \$20	1,400
	22	Purchases	10 units at \$22	<u>220</u>
				\$2,000

A physical count of merchandise inventory on July 30 reveals that there are 30 units on hand.

26. Using the average cost method, the value of ending inventory is
- A) \$580.
  - B) \$600.
  - C) \$610.
  - D) \$620.
27. Using the FIFO inventory method, the amount allocated to cost of goods sold for July is
- A) \$580.
  - B) \$620.
  - C) \$1,380.
  - D) \$1,420.

28. Using the FIFO inventory method, the amount allocated to ending inventory for July is  
A) \$580.  
B) \$620.  
C) \$600.  
D) \$570.
29. Using the LIFO inventory method, the amount allocated to cost of goods sold for July is  
A) \$580.  
B) \$620.  
C) \$1,380.  
D) \$1,420.
30. Using the LIFO inventory method, the amount allocated to ending inventory for July is  
A) \$580  
B) \$610  
C) \$600  
D) \$570.

Use the following to answer questions 31-32:

Ace Industries had the following inventory transactions occur during 2007:

		Units	Cost/unit
2/1/07	Purchase	18	\$45
3/14/07	Purchase	31	\$47
5/1/07	Purchase	22	\$49

The company sold 51 units at \$63 each and has a tax rate of 30%.

31. Assuming that a periodic inventory system is used, what is the company's gross profit using LIFO? (rounded to whole dollars)  
A) \$2,441  
B) \$2,365  
C) \$848  
D) \$772

32. Assuming that a periodic inventory system is used, what is the company's gross profit using FIFO? (rounded to whole dollars)
- A) \$2,441
  - B) \$2,365
  - C) \$848
  - D) \$772
33. Osborn Company's unadjusted book balance at June 30, 2006 is \$7,800. The company's bank statement reveals bank charges of \$45. Two credit memos are included in the bank statement: one for \$900 which represents a collection that the bank made for Osborn and one for \$50 which represents the amount of interest that Osborn had earned on its interest-bearing account in June. Based on this information, Osborn's true cash balance is:
- A) \$7,800.
  - B) \$8,705.
  - C) \$8,650.
  - D) \$8,795.
34. Dent Company's unadjusted bank balance at March 31, 2006 is \$3,000. The bank reconciliation revealed outstanding checks amounting to \$500 and deposits in transit of \$400. Based on this information, Dent's true cash balance is:
- A) \$3,100.
  - B) \$2,700.
  - C) \$2,800.
  - D) \$2,900.
35. Risch Company's unadjusted book balance at October 31, 2006 is \$2,500. The following information is available for the bank reconciliation.

Outstanding checks, \$600  
Deposits in transit, \$450  
Bank service charges, \$90  
Bank collected an accounts receivable for Risch Company, \$1,000  
NSF check written by one of Risch's customers, \$600.

Based on this information Risch's true cash balance is:

- A) \$1,050.
- B) \$3,590.
- C) \$2,810.
- D) \$2,860.

36. Which of the following entries would be required to establish a \$625 petty cash fund?

- A)      Miscellaneous Expenses                                  625  
                    Petty Cash    625
- B)      Cash    625  
                    Petty Cash    625
- C)      Petty Cash    625  
                    Miscellaneous Expenses                            625
- D)      Petty Cash    625  
                    Cash    625

37. Jones Company had checks outstanding totaling \$10,800 on its June bank reconciliation.

In July, Jones Company issued checks totaling \$77,800. The July bank statement shows that \$52,600 in checks cleared the bank in July. A check from one of Jones Company's customers in the amount of \$600 was also returned marked "NSF." The amount of outstanding checks on Davis Company's July bank reconciliation should be

- A) \$25,200.
- B) \$36,000.
- C) \$35,400.
- D) \$14,400.

38. Dones Company had checks outstanding totaling \$6,400 on its May bank reconciliation.

In June, Dones Company issued checks totaling \$39,900. The July bank statement shows that \$29,700 in checks cleared the bank in July. A check from one of Jones Company's customers in the amount of \$300 was also returned marked "NSF." The amount of outstanding checks on Davis Company's July bank reconciliation should be

- A) \$19,600.
- B) \$10,200.
- C) \$16,600.
- D) \$3,800.

39. Wilson Company gathered the following reconciling information in preparing its August bank reconciliation:

Cash balance per books, 8/31	\$7,000
Deposits in transit	300
Notes receivable and interest collected by bank	1,700
Bank charge for check printing	40
Outstanding checks	4,000
NSF check	340

The adjusted cash balance per books on August 31 is

- A) \$8,320.
- B) \$8,020.
- C) \$4,620.
- D) \$4,920.

40. Jansen Company gathered the following reconciling information in preparing its April bank reconciliation:

Cash balance per books, 4/30	\$6,600
Deposits in transit	900
Notes receivable and interest collected by bank	2,220
Bank charge for check printing	75
Outstanding checks	4,500
NSF check	420

The adjusted cash balance per books on April 30 is

- A) \$9,225.
- B) \$8,820.
- C) \$8,325.
- D) \$9,165.

41. Barns Company developed the following reconciling information in preparing its September bank reconciliation:

Cash balance per bank, 9/30	\$15,400
Note receivable collected by bank	8,400
Outstanding checks	12,600
Deposits in transit	6,300
Bank service charge	105
NSF check	1,680

Using the above information, determine the cash balance per books (before adjustments) for the Barns Company.

- A) \$13,685
- B) \$21,700
- C) \$2,485
- D) \$21,000

Use the following to answer question 42:

Vulcan Co. uses the perpetual inventory method. The inventory records for Vulcan reflected the following:

Jan 1	Beginning Inventory	300 units @ \$2.10
Jan 12	First Purchase	400 units @ \$2.40
Jan 18	Sales	500 units @ \$3.00
Jan 21	Second Purchase	300 units @ \$2.20
Jan 25	Third Purchase	100 units @ \$2.30
Jan 31	Sales	400 units @ \$3.00

42. Assuming Vulcan uses a FIFO cost flow method, the cost of goods sold for the sales transaction on January 31 is:
- A) \$860.
  - B) \$920.
  - C) \$880.
  - D) \$840.
43. Tabby Co. had beginning inventory of \$200 and ending inventory of \$300. Tabby Co. had cost of goods sold amounting to \$800. Based on this information, Tabby Co. must have purchased inventory amounting to:
- A) \$ 800
  - B) \$ 900
  - C) \$ 700
  - D) \$1,100

Use the following to answer questions 44-46:

Friday Enterprises started the period with 150 units in beginning inventory that cost \$2 each. During the period the company purchased inventory items as follows:

Purchase	No. of Items	Cost
1	200	\$3.00
2	150	\$3.10
3	50	\$3.50

Friday sold 200 units after purchase 3.

44. Friday's cost of goods sold under FIFO would be:
- A) \$640.
  - B) \$560.
  - C) \$450.
  - D) \$300.
45. Friday's ending inventory under LIFO would be:
- A) \$1,240
  - B) \$1,090.
  - C) \$ 900.
  - D) \$ 980.
46. Friday's ending inventory under weighted average would be approximately:
- A) \$980.
  - B) \$900.
  - C) \$450.
  - D) \$300.
47. When prices are falling:
- A) LIFO will result in lower income and a lower inventory valuation than will FIFO.
  - B) LIFO will result in lower income and a higher inventory valuation than will FIFO.
  - C) LIFO will result in higher income and a lower inventory valuation than will FIFO.
  - D) LIFO will result in higher income and a higher inventory valuation than will FIFO.
48. If prices are rising, which inventory cost flow method will produce the lowest amount of cost of goods sold?
- A) FIFO
  - B) LIFO
  - C) NIFO
  - D) Weighted Average.

49. At April 30, Beckett Company has the following bank information: cash balance per bank \$4,600; outstanding checks \$280; deposits in transit \$550; credit memo for interest \$10; bank service charge \$20. What is Beckett's adjusted cash balance on April 30?
- A) \$4,860.
  - B) \$4,880.
  - C) \$4,330.
  - D) \$4,870.
50. At April 30, Coulsen Company has the following bank information: cash balance per bank \$3,600; outstanding checks \$280; deposits in transit \$550; credit memo for interest \$10; bank service charge \$20. What is Coulsen's adjusted cash balance on April 30?
- A) \$3,860.
  - B) \$3,880.
  - C) \$3,330.
  - D) \$3,870.
51. Pierce Company wrote checks totaling \$8,540 during October and \$9,325 during November. \$8,120 of these checks cleared the bank in October, and \$9,110 cleared the bank in November. What was the amount of outstanding checks on November 30?
- A) \$635.
  - B) \$115.
  - C) \$305.
  - D) \$990.
52. Rhoden Company wrote checks totaling \$17,080 during October and \$18,650 during November. \$16,240 of these checks cleared the bank in October, and \$18,220 cleared the bank in November. What was the amount of outstanding checks on November 30?
- A) \$1,270.
  - B) \$230.
  - C) \$610.
  - D) \$1,980.

Use the following to answer question 53:

	12/31/06
Accounts receivable	\$525,000
Allowance	<u>(45,000)</u>
Cash realizable value	480,000

During 2007 sales on account were \$145,000 and collections on account were \$86,000. Also, during 2007 the company wrote off \$8,000 in uncollectible accounts. An analysis of outstanding receivable accounts at year end indicated that bad debts should be estimated at \$54,000.

53. The change in the cash realizable value from the balance at 12/31/06 to 12/31/07 was
- A) \$50,000 increase
  - B) \$59,000 increase
  - C) \$42,000 increase
  - D) \$51,000 increase
54. During 2007 Dillman Inc. had sales on account of \$396,000, cash sales of \$162,000, and collections on account of \$252,000. In addition, they collected \$4,350 which had been written off as uncollectible in 2006. As a result of these transactions the change in the accounts receivable indicates a
- A) \$301,650 increase
  - B) \$144,000 increase
  - C) \$139,650 increase
  - D) \$306,000 increase
55. Using the allowance method, the uncollectible accounts for the year is estimated to be \$28,000. If the balance for the Allowance for Doubtful Accounts is a \$7,000 credit before adjustment, what is the balance after adjustment?
- A) \$7,000
  - B) \$21,000
  - C) \$28,000
  - D) \$35,000
56. Using the allowance method, the uncollectible accounts for the year is estimated to be \$28,000. If the balance for the Allowance for Doubtful Accounts is a \$7,000 credit before adjustment, what is the amount of bad debt expense for the period?
- A) \$7,000
  - B) \$21,000
  - C) \$28,000
  - D) \$35,000

57. Using the allowance method, the uncollectible accounts for the year is estimated to be \$28,000. If the balance for the Allowance for Doubtful Accounts is a \$7,000 debit before adjustment, what is the amount of bad debt expense for the period?
- A) \$7,000
  - B) \$21,000
  - C) \$28,000
  - D) \$35,000

Use the following to answer question 58:

On January 1, 2007 the Accounts Receivable and the Allowance for Doubtful Accounts carried balances of \$30,000 and \$500, respectively. During the year the company reported \$70,000 of credit sales. There were \$550 of receivables written-off as uncollectible in 2007. Cash collections of receivables amounted to \$74,550. The company estimates that it will be unable to collect one percent (1%) of credit sales.

58. The entry to recognize the write-off of the uncollectible accounts will act to:
- A) increase total assets and total equity.
  - B) increase total assets and decrease total equity.
  - C) decrease total assets and total equity.
  - D) Not affect total assets or total equity.

Use the following to answer question 59:

On January 1, 2007 Grant Company had a \$4,000 balance in the Accounts Receivable account and a zero balance in the Allowance for Doubtful Accounts account. During 2007, Grant provided \$25,000 of service on account. The company collected \$24,000 cash from account receivable. Bad debts are estimated to be 2% of sales on account.

59. The amount of bad debts expense to recognize on the 2007 income statement is:
- A) \$80.
  - B) \$250.
  - C) \$480.
  - D) \$500.

60. The Loxley Company borrowed \$10,000 on October 1, 2006. Loxley issued a one year 6% discount note. The adjusting entry necessary to record accrued interest on December 31, 2006 would include a:
- A) debit to discount on notes payable of \$150.
  - B) debit to notes payable for \$10,000.
  - C) debit to interest expense for \$150.
  - D) None of the above.

Use the following to answer question 61:

The Morgan Company earned \$45,000 of revenue on account during 2006. There was no beginning balance in the accounts receivable and allowance accounts. During 2006 Morgan collected \$34,000 of cash from its receivables accounts. The company estimates that it will be unable to collect 3% of its sales on account.

61. The amount of bad debts expense recognized on the 2006 income statement would be:
- A) \$ 1,020.
  - B) \$ 330.
  - C) \$ 1,350.
  - D) \$11,000.
62. The year-end adjusting entry to recognize bad debts expense will act to:
- A) increase assets and decrease equity.
  - B) decrease assets and decrease equity.
  - C) increase liabilities and increase equity.
  - D) decrease liabilities and increase equity.

Use the following to answer question 63:

The Morgan Company earned \$45,000 of revenue on account during 2006. There was no beginning balance in the accounts receivable and allowance accounts. During 2006 Morgan collected \$34,000 of cash from its receivables accounts. The company estimates that it will be unable to collect 3% of its sales on account.

63. The amount of net realizable value of receivables appearing on the company's 2006 balance sheet would be:
- A) \$ 9,650.
  - B) \$11,000.
  - C) \$34,000.
  - D) \$45,000.
64. On January 1, 2007 the Accounts Receivable balance was \$9,000 and the balance in the Allowance for Doubtful Accounts was \$700. On January 15, 2007 a \$200 uncollectible account was written-off. The net realizable value of accounts receivable immediately after the write-off is:
- A) \$9,500.
  - B) \$8,500.
  - C) \$8,300.
  - D) \$9,200.
65. Kent Co. uses the perpetual inventory method. Kent purchased 400 units of inventory that cost \$3.00 each. At a later date the company purchased an additional 600 units of inventory that cost \$4.00 each. If Krieger Co. uses the FIFO cost flow method, and sells 800 units of inventory, the amount of cost of goods sold will be:
- A) \$3,000.
  - B) \$2,800.
  - C) \$2,880.
  - D) \$ 600.