

## Midterm B

1. Which of the following accounting principles prescribes that a company record its expenses incurred to generate the revenue reported?

- A. Going-concern assumption.
- B. Matching principle.**
- C. Cost principle.
- D. Business entity assumption.
- E. Consideration assumption.

2. If equity is \$300,000 and liabilities are \$192,000, then assets equal:

- A. \$108,000.
- B. \$192,000.
- C. \$300,000.
- D. \$492,000.**
- E. \$792,000.

3. The difference between a company's assets and its liabilities, or net assets is:

- A. Net income.
- B. Expense.
- C. Equity.**
- D. Revenue.
- E. Net loss.

4. The description of the relation between a company's assets, liabilities, and equity, which is expressed as  $\text{Assets} = \text{Liabilities} + \text{Equity}$ , is known as the:

- A. Income statement equation.
- B. Accounting equation.**
- C. Business equation.
- D. Return on equity ratio.
- E. Net income.

5. If assets are \$99,000 and liabilities are \$32,000, then equity equals:

- A. \$32,000.
- B. \$67,000.**
- C. \$99,000.
- D. \$131,000.
- E. \$198,000.

6. A payment to an owner is called a(n):

- A. Liability.
- B. Withdrawal.**
- C. Expense.
- D. Contribution.
- E. Investment.

7. Reston had income of \$150 million and average invested assets of \$1,800 million. Its return on assets is:

- A. **8.3%.**
- B. 83.3%.
- C. 12%.
- D. 120%.
- E. 16.7%.

8. FastLane has net income of \$18,955, and assets at the beginning of the year of \$200,000. Assets at the end of the year total \$246,000. Compute its return on assets.

- A. 7.7%.
- B. **8.5%.**
- C. 9.5%.
- D. 11.8%.
- E. 13.0%.

9. The basic financial statements include all of the following except:

- A. Balance Sheet.
- B. Income Statement.
- C. Statement of Owner's Equity.
- D. Statement of Cash Flows.
- E. **Trial Balance.**

10. Accounts payable appear on which of the following statements?

- A. **Balance sheet.**
- B. Income statement.
- C. Statement of owner's equity.
- D. Statement of cash flows.
- E. Transaction statement.

11. Determine the net income of a company for which the following information is available for the month of May.

Employee salaries expense	\$180,000
Interest expense	10,000
Rent expense	20,000
Consulting revenue	400,000

- A. **\$190,000.**
- B. \$210,000.
- C. \$230,000.
- D. \$400,000.
- E. \$610,000.

12. Robert Haddon contributed \$70,000 in cash and land worth \$130,000 to open a new business, RH Consulting. Which of the following general journal entries will RH Consulting make to record this transaction?

- A. Debit Assets \$200,000; credit Haddon, Capital, \$200,000.
- B. Debit Cash and Land, \$200,000; credit Haddon, Capital, \$200,000.
- C. Debit Cash \$70,000; debit Land \$130,000; credit Haddon, Capital, \$200,000.**
- D. Debit Haddon, Capital, \$200,000; credit Cash \$70,000, credit Land, \$130,000.
- E. Debit Haddon, Capital, \$200,000; credit Assets, \$200,000.

13. Interim financial statements refer to financial reports:

- A. That cover less than one year, usually spanning one, three, or six-month periods.**
- B. That are prepared before any adjustments have been recorded.
- C. That show the assets above the liabilities and the liabilities above the equity.
- D. Where revenues are reported on the income statement when cash is received and expenses are reported when cash is paid.
- E. Where the adjustment process is used assign revenues to the periods in which they are earned to match expenses with revenues.

14. The system of preparing financial statements based on recognizing revenues when the cash is received and reporting expenses when the cash is paid is called:

- A. Accrual basis accounting.
- B. Operating cycle accounting.
- C. Cash basis accounting.**
- D. Revenue recognition accounting.
- E. Current basis accounting.

15. The approach to preparing financial statements based on recognizing revenues when they are earned and matching expenses to those revenues is:

- A. Cash basis accounting.
- B. The matching principle.
- C. The time period assumption.
- D. Accrual basis accounting.**
- E. Revenue basis accounting.

16. Profit margin is defined as:

- A. Revenue divided by net sales.
- B. Net sales divided by assets.
- C. Net income divided by net sales.**
- D. Net income divided by assets.
- E. Net sales divided by net income.

17. A company earned \$2,000 in net income for October. Its net sales for October were \$10,000. Its profit margin is:

- A. 2%.
- B. 20%.**
- C. 200%.
- D. 500%.
- E. \$8,000.

18. An account linked with another account that has an opposite normal balance and that is subtracted from the balance of the related account is a(n):

- A. Accrued expense.
- B. Contra account.**
- C. Accrued revenue.
- D. Intangible asset.
- E. Adjunct account.

19. The total amount of depreciation recorded against an asset or group of assets during the entire time the asset or assets have been owned:

- A. Is referred to as depreciation expense.
- B. Is referred to as accumulated depreciation.**
- C. Is shown on the income statement of the final period.
- D. Is only recorded when the asset is disposed of.
- E. Is referred to as an accrued asset.

20. Prior to recording adjusting entries, the Office Supplies account had a \$359 debit balance. A physical count of the supplies showed \$105 of unused supplies available. The required adjusting entry is:

- A. Debit Office Supplies \$105 and credit Office Supplies Expense \$105.
- B. Debit Office Supplies Expense \$105 and credit Office Supplies \$105.
- C. Debit Office Supplies Expense \$254 and credit Office Supplies \$254.**
- D. Debit Office Supplies \$254 and credit Office Supplies Expense \$254.
- E. Debit Office Supplies \$105 and credit Supplies Expense \$254.

21. If throughout an accounting period the fees for legal services paid in advance by clients are recorded in an account called Unearned Legal Fees, the end-of-period adjusting entry to record the portion of these fees that has been earned is:

- A. Debit Cash and credit Legal Fees Earned.
- B. Debit Cash and credit Unearned Legal Fees.
- C. Debit Unearned Legal Fees and credit Legal Fees Earned.**
- D. Debit Legal Fees Earned and credit Unearned Legal Fees.
- E. Debit Unearned Legal Fees and credit Accounts Receivable.

22. On April 1, a company paid the \$1,350 premium on a three-year insurance policy with benefits beginning on that date. What will be the insurance expense on the annual income statement for the year ended December 31?

- A. \$1,350.00.
- B. \$450.00.
- C. \$1,012.50.
- D. \$337.50.**
- E. \$37.50.

23. A company had no office supplies available at the beginning of the year. During the year, the company purchased \$250 worth of office supplies. On December 31, \$75 worth of office supplies remained. How much should the company report as office supplies expense for the year?

- A. \$75.
- B. \$125.
- C. \$175.**
- D. \$250.
- E. \$325.

24. Which of the following assets is not depreciated?

- A. Store fixtures.
- B. Computers.
- C. Land.**
- D. Buildings.
- E. All of these are depreciated.

25. On January 1, Southwest College received \$1,200,000 in Unearned Tuition Revenue from its students for the spring semester, which spans four months beginning January 2. What amount of tuition revenue should the college recognize on January 31?

- A. \$300,000.**
- B. \$600,000.
- C. \$800,000.
- D. \$900,000.
- E. \$1,200,000.

26. A company purchased a new truck at a cost of \$42,000 on July 1. The truck is estimated to have a useful life of 6 years and a salvage value of \$3,000. The company uses the straight-line method of depreciation. How much depreciation expense will be recorded for the truck during the first year ended December 31?

- A. \$3,250.**
- B. \$3,500.
- C. \$4,000.
- D. \$6,500.
- E. \$7,000.

27. The balance in the prepaid insurance account before adjustment at the end of the year is \$4,800, which represents the insurance premiums for four months. The premiums were paid on November 1. The adjusting entry required on December 31 is:

- A. Debit Insurance Expense, \$2,400; credit Prepaid Insurance, \$2,400.**
- B. Debit Prepaid Insurance, \$2,400; credit Insurance Expense, \$2,400.
- C. Debit Insurance Expense, \$1,200; credit Prepaid Insurance, \$1,200.
- D. Debit Prepaid Insurance, \$1,200; credit Insurance Expense, \$1,200.
- E. Debit Cash, \$4,800; Credit Prepaid Insurance, \$4,800.

28. A company purchased new computers at a cost of \$14,000 on September 30. The computers are estimated to have a useful life of 4 years and a salvage value of \$2,000. The company uses the straight-line method of depreciation. How much depreciation expense will be recorded for the computers for the first year ended December 31?

- A. \$250
- B. \$750**
- C. \$875
- D. \$1,000
- E. \$3,000

29. Financial statements are typically prepared in the following order:

- A. Balance sheet, statement of owner's equity, income statement.
- B. Statement of owner's equity, balance sheet, income statement.
- C. Income statement, balance sheet, statement of owner's equity.
- D. Income statement, statement of owner's equity, balance sheet.**
- E. Balance sheet, income statement, statement of owner's equity.

30. When closing entries are made:

- A. All ledger accounts are closed to start the new accounting period.
- B. All temporary accounts are closed but not the permanent accounts.**
- C. All real accounts are closed but not the nominal accounts.
- D. All permanent accounts are closed but not the nominal accounts.
- E. All balance sheet accounts are closed.

31. Revenues, expenses, and withdrawals accounts, which are closed at the end of each accounting period are:

- A. Real accounts.
- B. Temporary accounts.**
- C. Closing accounts.
- D. Permanent accounts.
- E. Balance sheet accounts.

32. Assets, liabilities, and equity accounts are not closed; these accounts are called:

- A. Nominal accounts.
- B. Temporary accounts.
- C. Permanent accounts.**
- D. Contra accounts.
- E. Accrued accounts.

33. A classified balance sheet:

- A. Measures a company's ability to pay its bills on time.
- B. Organizes assets and liabilities into important subgroups.**
- C. Presents revenues, expenses, and net income.
- D. Reports operating, investing, and financing activities.
- E. Reports the effect of profit and withdrawals on owner's capital.

34. Two common subgroups for liabilities on a classified balance sheet are:

- A. current liabilities and intangible liabilities.
- B. present liabilities and operating liabilities.
- C. general liabilities and specific liabilities.
- D. intangible liabilities and long-term liabilities.
- E. current liabilities and long-term liabilities.**

35. J. Awn, the proprietor of Awn Services, withdrew \$8,700 from the business during the current year. The entry to close the withdrawals account at the end of the year is:

- A. Debit J. Awn, Withdrawals \$8,700; credit Cash, \$8,700.
- B. Debit J. Awn, Capital \$8,700; credit J. Awn, Withdrawals \$8,700.**
- C. Debit J. Awn, Withdrawals \$8,700; credit J. Awn, Capital \$8,700.
- D. Debit J. Awn, Capital \$8,700, credit Salary Expense \$8,700.
- E. Debit Income Summary \$8,700; credit J. Awn, Capital \$8,700.

36. The following information is available for the Travis Travel Agency. After these closing entries what will be the balance in the Jay Travis, Capital account?

Total revenues	\$125,000
Total expenses	60,000
Jay Travis, Capital	80,000
Jay Travis, Withdrawals	15,000

- A. \$65,000.
- B. \$80,000.
- C. \$130,000.**
- D. \$145,000.
- E. \$280,000.

37. Cost of goods sold:

- A. Is another term for merchandise sales.
- B. Is the term used for the cost of buying and preparing merchandise for sale.**
- C. Is another term for revenue.
- D. Is also called gross margin.
- E. Is a term only used by service firms.

38. A company had sales of \$695,000 and cost of goods sold of \$278,000. Its gross margin equals:

- A. \$(417,000).
- B. \$695,000.
- C. \$278,000.
- D. \$417,000.**
- E. \$973,000.

39. A company had sales of \$375,000 and its gross profit was \$157,000. Its cost of goods sold equals:

- A. \$(217,000).
- B. \$375,000.
- C. \$157,500.
- D. \$217,500.**
- E. \$532,500.

40. The current period's ending inventory is:

- A. The next period's beginning inventory.**
- B. The current period's cost of goods sold.
- C. The prior period's beginning inventory.
- D. The current period's net purchases.
- E. The current period's beginning inventory.

41. Beginning inventory plus net purchases is:

- A. Cost of goods sold.
- B. Merchandise available for sale.**
- C. Ending inventory.
- D. Sales.
- E. Shown on the balance sheet.

42. ABC Corporation's total quick assets were \$5,888,000, its current assets were \$11,700,000 and its current liabilities were \$8,000,000. Its acid-test ratio equals:

- A. 0.50.
- B. 0.68.
- C. 0.74.**
- D. 1.50.
- E. 2.20.

43. Using the following year-end information for Breanna Boutique, calculate the current ratio and acid-test ratio for the boutique:

Cash	\$52,000
Short-term investments	12,000
Accounts receivable	54,000
Inventory	325,000
Prepaid expenses	17,500
Accounts payable	106,500
Other current payables	25,000

- A. 1.8 and 1
- B. 1.97 and 1.52
- C. 2.73 and 1.52
- D. 3.50 and 0.90**
- E. None of these

44. A company's gross profit was \$83,750 and its net sales were \$347,800. Its gross margin ratio equals:

- A. 4.2%.
- B. 24.1%.**
- C. 75.9%.
- D. \$83,750.
- E. \$264,050.



45. Peg had net sales of \$28,496 million, its cost of goods sold was \$19,092 million, and its net income was \$997 million. Its gross margin ratio equals:

- A. 3.5%.
- B. 5.2%.
- C. 33%.**
- D. 67%.
- E. 149.3%.

46. The credit terms 2/10, n/30 are interpreted as:

- A. 2% cash discount if the amount is paid within 10 days, or the balance due in 30 days.**
- B. 10% cash discount if the amount is paid within 2 days, or the balance due in 30 days.
- C. 30% discount if paid within 2 days.
- D. 30% discount if paid within 10 days.
- E. 2% discount if paid within 30 days.

47. A company uses the perpetual inventory system and recorded the following entry

Accounts Payable	2,500
Merchandise Inventory	50
Cash	2,450

This entry reflects a:

- A. Purchase of merchandise on credit.
- B. Return of Merchandise.
- C. Sale of merchandise on credit.
- D. Payment of the account payable and recognition of a 2% cash discount taken.**
- E. Payment of the account payable and recognition of a 1% cash discount taken.

48. A company purchased \$1,800 of merchandise on December 5. On December 7, it returned \$200 worth of merchandise. On December 8, it paid the balance in full, taking a 2% discount. The amount of the cash paid on December 8 equals:

- A. \$200.
- B. \$1,564.
- C. \$1,568.**
- D. \$1,600.
- E. \$1,800.

49. The inventory valuation method that has the advantages of assigning an amount to inventory on the balance sheet that approximates its current cost, and also mimics the actual flow of goods for most businesses is:

- A. FIFO.**
- B. Weighted average.
- C. LIFO.
- D. Specific identification.
- E. All of these.

50. During a period of steadily rising costs, the inventory valuation method that yields the lowest reported net income is:

- A. Weighted-average method.
- B. Average cost method.
- C. LIFO method.**
- D. FIFO method.
- E. Specific identification method.

51. A company had inventory on November 1 of 5 units at a cost of \$20 each. On November 2, they purchased 10 units at \$22 each. On November 6 they purchased 6 units at \$25 each. On November 8, 8 units were sold at \$55 each. Using the LIFO perpetual inventory method, what was the value of the inventory on November 8 after the sale?

- A. \$280
- B. \$276**
- C. \$296
- D. \$304
- E. \$288

52. The inventory turnover ratio is calculated as:

- A. Cost of goods sold divided by average merchandise inventory.**
- B. Ending inventory divided by cost of goods sold.
- C. Cost of goods sold divided by ending inventory times 365.
- D. Cost of goods sold divided by ending inventory.
- E. Sales divided by cost of goods sold.

53. Tops had cost of goods sold of \$9,421 million, ending inventory of \$2,089 million, and average inventory of \$1,965 million. Its inventory turnover equals:

- A. 80.9 days.
- B. 0.21.
- C. 76.1.
- D. 4.51.
- E. 4.79.**

54. A company had the following purchases during the current year:

January:	10 units at \$120
February:	20 units at \$130
May:	15 units at \$140
September:	12 units at \$150
November:	10 units at \$160

On December 31, there were 26 units remaining in ending inventory. These 26 units consisted of 2 from January, 4 from February, 6 from May, 4 from September, and 10 from November. Using the specific identification method, what is the cost of the ending inventory?

- A. \$3,500.
- B. \$3,640.
- C. \$3,280.
- D. \$3,960.
- E. \$3,800.**