1. When using the periodic system the physical inventory count is used to determine
   A) only the sales value of goods in the ending inventory.
   B) both the cost of the goods in ending inventory and the sales value of goods sold during the period.
   C) both the cost of the goods sold and the cost of ending inventory.
   D) only the cost of merchandise sold during the period.

2. All of the following are necessary to compute the future value of a single amount except the
   A) interest rate.  B) number of periods.  C) principal.  D) maturity value.

3. Accounts often need to be adjusted because
   A) there are never enough accounts to record all the transactions.
   B) many transactions affect more than one time period.
   C) there are always errors made in recording transactions.
   D) management can't decide what they want to report.

4. 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.

5. Perry Company deposits $10,000 in a fund at the end of each year for 5 years. The fund pays interest of 3% compounded annually. The balance in the fund at the end of 5 years is computed by multiplying
   A) $10,000 by the future value of 1 factor.
   B) $50,000 by 1.03.
   C) $50,000 by 1.30.
   D) $10,000 by the future value of an annuity factor.
6. Net income will result if gross profit exceeds
   A) cost of goods sold.
   B) operating expenses.
   C) purchases.
   D) cost of goods sold plus operating expenses.

7. The future value of 1 factor will always be
   A) equal to 1.  B) greater than 1.  C) less than 1.  D) equal to the interest rate.

8. Adjustments for unearned revenue:
   A) decrease liabilities and increase revenues.
   B) increase liabilities and increase revenues.
   C) increase assets and increase revenues.
   D) decrease revenues and decrease assets.

9. An accounting time period that is one year in length is called
   A) a fiscal year.  C) the time period assumption.
   B) an interim period.  D) a reporting period.

10. An asset–expense relationship exists with
    A) liability accounts.  C) prepaid expense adjusting entries.
    B) revenue accounts.  D) accrued expense adjusting entries.

11. Gross profit equals the difference between
    A) net income and operating expenses.
    B) net sales revenues and cost of goods sold.
    C) net sales revenues and operating expenses.
    D) net sales revenues and cost of goods sold plus operating expenses.

12. The primary difference between a periodic and perpetual inventory system is that a
    periodic system
    A) keeps a record showing the inventory on hand at all time.
    B) provides better control over inventories.
    C) records the cost of the sale on the date the sale is made.
    D) determines the inventory on hand only at the end of the accounting period.

13. Which of the following activities is not a component of the operating cycle?
    A) Sale of merchandise
    B) Payment of employees' salaries
    C) Collection of cash from merchandise sales
    D) Purchase of merchandise

14. In a service-type business, revenue is considered earned
    A) at the end of the month.  C) when the service is performed.
    B) at the end of the year.  D) when cash is received.
15. A gift shop signs a three-month note payable to help finance increases in inventory for the Christmas shopping season. The note is signed on November 1 in the amount of $30,000 with annual interest of 6%. What is the adjusting entry to be made on December 31 for the interest expense accrued to that date, if no entries have been made previously for the interest?
   A) Interest Expense 300
       Interest Payable 300
   B) Interest Expense 450
       Interest Payable 450
   C) Interest Expense 300
       Cash 300
   D) Interest Expense 450
       Note Payable 450

16. Detailed records of goods held for resale are not maintained under a
   A) perpetual inventory system.   C) double entry accounting system.
   B) periodic inventory system.   D) single entry accounting system.

17. Javier's Tune-Up Shop follows the revenue recognition principle. Javier services a car on August 31. The customer picks up the vehicle on September 1 and mails the payment to Javier on September 5. Javier receives the check in the mail on September 6. When should Javier show that the revenue was earned?
   A) August 31   B) August 1   C) September 5   D) September 6

18. Each of the following is a major type (or category) of adjusting entry except:
   A) earned expenses.   C) accrued expenses.
   B) prepaid expenses.   D) accrued revenues.

19. On January 1, 2006, E.D. Reardon Inc. purchased equipment for $30,000. The company is depreciating the equipment at the rate of $400 per month. At January 31, 2007, the balance in Accumulated Depreciation is
   A) $400 debit   B) $4,800 credit   C) $5,200 credit   D) $26,600 debit

20. On July 1 the Winter Shoe Store paid $12,000 to Ace Realty for 6 months rent beginning July 1. Prepaid Rent was debited for the full amount. If financial statements are prepared on July 31, the adjusting entry to be made by the Winter Shoe Store is
   A) Debit Rent Expense, $12,000; Credit Prepaid Rent, $2,000.
   B) Debit Prepaid Rent, $2,000; Credit Rent Expense, $2,000.
   C) Debit Rent Expense, $2,000; Credit Prepaid Rent, $2,000.
   D) Debit Rent Expense, $12,000; Credit Prepaid Rent, $12,000.
21. Which of the following reflect the balances of prepayment accounts prior to adjustment?
   A) Balance sheet accounts are understated and income statement accounts are understated.
   B) Balance sheet accounts are overstated and income statement accounts are overstated.
   C) Balance sheet accounts are overstated and income statement accounts are understated.
   D) Balance sheet accounts are understated and income statement accounts are overstated.

22. The closing entry process consists of closing
   A) all asset and liability accounts.  C) all permanent accounts.
   B) out the Retained Earnings account.  D) all temporary accounts.

23. Under a perpetual inventory system
   A) accounting records continuously disclose the amount of inventory.
   B) increases in inventory resulting from purchases are debited to purchases.
   C) there is no need for a year-end physical count.
   D) the account purchase returns and allowances is credited when goods are returned to vendors.

24. The journal entry to record a return of merchandise purchased on account under a perpetual inventory system would credit
   A) Accounts Payable.  C) Sales.
   B) Purchase Returns and Allowances.  D) Merchandise Inventory

25. The entry to record the return of goods from a customer would include a
   A) debit to Sales.
   B) credit to Sales.
   C) debit to Sales Returns and Allowances.
   D) credit to Sales Returns and Allowances.

26. In five words or less describe the difference between cash basis and accrual basis accounting over the life of an entity (incomplete sentence is acceptable if you like, but not necessary to answer the question)
27. If inventory is overstated what other account is most likely impacted and in what direction?

28. When cash has been paid in advance of the benefit being derived, the company has R_________ the loss of cash, but should not yet R___________ the expense.

29. WeCount, Inc. uses the periodic method for inventory costing and has $5,000 of inventory on December 31, 2006. They purchase new inventory for $10,000 on January 1, 2007 (on credit), then they sell inventory to customers for $18,000 on January 15, 2007 (on credit), and then they count inventory of $9,000 on hand on January 31, 2007. Record the entries appropriate on each of the days indicated below in the space provided.

**PURCHASE ON JANUARY 1, 2007:**

**SALE ON JANUARY 15, 2007:**

**COUNT ON JANUARY 31, 2007**

**WHAT JOURNAL ENTRY WOULD BE RECORDED ON JANUARY 31, 2007 IF THEY USED THE PERPETUAL INVENTORY SYSTEM?**

30. List two contra-asset accounts discussed in class and for each, state the associated balance sheet account that they are "contra" to. Also state the term we use to refer to the value of the asset adjusted downward by the amount of the associated contra-asset account.
31. RAFS, Inc. pays its employees $5,000 per week and makes payroll payments every Friday. Their year end fell on a Tuesday this past year. Record any adjusting journal entries RAFS should record at year end. Also post the journal entry which will need to be posted on the first Friday of the following year.

YEAR END ADJUSTING JOURNAL ENTRY:

FIRST PAYROLL OF NEXT YEAR JOURNAL ENTRY:

32. Real estate which cost $7,500,000 is sold to a buyer who is going to pay $8,000,000 cash on the date of sale and $2,000,000 in the form of a 0% note payable in 2 years. Comment upon the amount of gain (it will be equal to, more than or less than a certain amount) that the seller should recognize on the date of the sale- and briefly describe the basis for your conclusion.

33. Merchandizer, Inc. purchases inventory on terms 2/10n30. The full value of the purchase without discounts is $10,000 and Merchandizer uses the "Gross" method for recording purchases (assumes they will pay all of the payable after the discount period has expired). Assuming that Merchandizer uses perpetual inventory, what is the journal entry to record on the date of the purchase?

Assume that Merchandizer makes a payment of $4,900 3 days after the purchase. What is the appropriate journal entry to record this payment?
Answer Key

1. C
2. D
3. B
4. C
5. D
6. B
7. B
8. A
9. A
10. C
11. B
12. D
13. B
14. C
15. A
16. B
17. A
18. A
19. C
20. C
21. C
22. D
23. A
24. D
25. C
26. There is no difference. or None, or anything along those lines.
27. COGS is most likely understated.
28. Realized/ Recognized (in that order!)
29. PURCHASE ON JANUARY 1, 2007:
   Purchases $10,000
   Accounts payable $10,000
SALE ON JANUARY 15, 2007:
   Accounts receivable $18,000
   Sales $18,000
COUNT ON JANUARY 31, 2007
   Inventory $10,000
   Purchases $10,000
   COGS $6,000
   Inventory $6,000
WHAT JOURNAL ENTRY WOULD BE RECORDED ON JANUARY 31, 2007 IF THEY USED THE PERPETUAL INVENTORY SYSTEM?
no entry!!!
30. Allowance for doubtful accounts is contra to the accounts receivable
   Accumulated depreciation is contra to the associated fixed asset.
   Net book value.
31. YEAR-END ADJUSTING JOURNAL ENTRY:
   Wages/ Salary expense $2,000
   Wages payable/ Accrued payroll $2,000

   FIRST PAYROLL OF NEXT YEAR:
   Wages/ Salary expense $3,000
   Wages payable/ Accrued payroll $2,000
   Cash $5,000
32. The gain will be less than the $10 million total cash to be received because the value of
   the $2M to be received in 2 years is less than $2 million today.
33. DATE OF PURCHASE:
   Inventory $10,000
   Accounts payable $10,000

   PAYMENT DATE:
   Accounts payable $5,000
   Cash $4,900
   Purchase discount* $100

   * "inventory" is acceptable for full credit
1. On January 1, 2006, E.D. Reardon Inc. purchased equipment for $30,000. The company is depreciating the equipment at the rate of $400 per month. At January 31, 2007, the balance in Accumulated Depreciation is
   A) $400 debit    B) $4,800 credit    C) $5,200 credit    D) $26,600 debit

2. Perry Company deposits $10,000 in a fund at the end of each year for 5 years. The fund pays interest of 3% compounded annually. The balance in the fund at the end of 5 years is computed by multiplying
   A) $10,000 by the future value of 1 factor.
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3. Net income will result if gross profit exceeds
   A) cost of goods sold.
   B) operating expenses.
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4. When using the periodic system the physical inventory count is used to determine
   A) only the sales value of goods in the ending inventory.
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   C) both the cost of the goods sold and the cost of ending inventory.
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5. The entry to record the return of goods from a customer would include a
   A) debit to Sales.
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9. In a service-type business, revenue is considered earned 
   A) at the end of the month. C) when the service is performed. 
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10. The primary difference between a periodic and perpetual inventory system is that a 
    periodic system 
    A) keeps a record showing the inventory on hand at all time. 
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11. Under a perpetual inventory system 
    A) accounting records continuously disclose the amount of inventory. 
    B) increases in inventory resulting from purchases are debited to purchases.  
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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.

**ANSWER THE REST OF THE QUESTIONS IN THE SPACE PROVIDED.**

26. If inventory is overstated what other account is most likely impacted and in what direction?
27. In five words or less describe the difference between cash basis and accrual basis accounting over the life of an entity (incomplete sentence is acceptable if you like, but not necessary to answer the question).

28. When cash has been paid in advance of the benefit being derived, the company has R ______ the loss of cash, but should not yet R ______ the expense.

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FIRST PAYROLL OF NEXT YEAR JOURNAL ENTRY:

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Assume that Merchanidizer makes a payment of $4,900 3 days after the purchase. What is the appropriate journal entry to record this payment?

32. WeCount, Inc. uses the periodic method for inventory costing and has $5,000 of inventory on December 31, 2006. They purchase new inventory for $10,000 on January 1, 2007 (on credit), then they sell inventory to customers for $18,000 on January 15, 2007 (on credit), and then they count inventory of $9,000 on hand on January 31, 2007. Record the entries appropriate on each of the days indicated below in the space provided.

PURCHASE ON JANUARY 1, 2007:

SALE ON JANUARY 15, 2007:

COUNT ON JANUARY 31, 2007

WHAT JOURNAL ENTRY WOULD BE RECORED ON JANUARY 31, 2007 IF THEY USED THE PERPETUAL INVENTORY SYSTEM?
33. List two contra-asset accounts discussed in class and for each, state the associated balance sheet account that they are "contra" to. Also state the term we use to refer to the value of the asset adjusted downward by the amount of the associated contra-asset account.
Answer Key

1. C
2. D
3. B
4. C
5. C
6. B
7. A
8. C
9. C
10. D
11. A
12. D
13. D
14. A
15. C
16. B
17. B
18. A
19. B
20. A
21. D
22. A
23. C
24. B
25. C
26. COGS is most likely understated.
27. There is no difference. or None, or anything along those lines.
28. Realized/ Recognized (in that order!)
29. YEAR-END ADJUSTING JOURNAL ENTRY:
   \[
   \begin{align*}
   \text{Wages/ Salary expense} & \quad $2,000 \\
   \text{Wages payable/ Accrued payroll} & \quad $2,000
   \end{align*}
   \]

FIRST PAYROLL OF NEXT YEAR:
\[
\begin{align*}
\text{Wages/ Salary expense} & \quad $3,000 \\
\text{Wages payable/ Accrued payroll} & \quad $2,000 \\
\text{Cash} & \quad $5,000
\end{align*}
\]
30. The gain will be less than the $10 million total cash to be received because the value of the $2M to be received in 2 years is less than $2 million today.
31. DATE OF PURCHASE:

Inventory                        $10,000
Accounts payable                  $10,000

PAYMENT DATE:

Accounts payable           $5,000
Cash                                      $4,900
Purchase discount*                $  100
* "inventory" is acceptable for full credit

32. PURCHASE ON JANUARY 1, 2007:

Purchases            $10,000
Accounts payable        $10,000

SALE ON JANUARY 15, 2007:

Accounts receivable  $18,000
Sales                           $18,000

COUNT ON JANUARY 31, 2007

Inventory            $10,000
Purchases                 $10,000
COGS               $  6,000
Inventory                  $6,000

WHAT JOURNAL ENTRY WOULD BE RECORDED ON JANUARY 31, 2007 IF THEY USED THE PERPETUAL INVENTORY SYSTEM?

no entry!!!

33. Allowance for doubtful accounts is contra to the accounts receivable
Accumulated depreciation is contra to the associated fixed asset.
Net book value.