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

2. Goods purchased for future use in the business, such as supplies, are called
   A) revenues.    B) liabilities.    C) prepaid expenses.    D) stockholders' equity.

3. The balance in the prepaid rent account before adjustment at the end of the year is
   $9,000 and represents three months rent paid on December 1. The adjusting entry
   required on December 31 is
   A) Debit Prepaid Rent, $6,000; Credit Rent Expense, $6,000.
   B) Debit Rent Expense, $3,000; Credit Prepaid Rent, $3,000.
   C) Debit Prepaid Rent, $3,000; Credit Rent Expense $3,000.
   D) Debit Rent Expense, $9,000; Credit Prepaid Rent, $9,000.

4. The revenue recognition principle dictates that revenue should be recognized in the
   accounting records
   A) at the end of the month.
   B) when cash is received.
   C) in the period that income taxes are paid.
   D) when it is earned.

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

6. Two categories of expenses in merchandising companies are
   A) sales and cost of goods sold.
   B) cost of goods sold and financing expenses.
   C) operating expenses and financing expenses.
   D) cost of goods sold and operating expenses.

7. One of the accounting concepts upon which adjustments for prepayments and accruals
are based is
A) monetary unit.  B) economic entity.  C) cost.  D) matching.

8. Accumulated Depreciation is a(n)
A) liability account.  C) stockholders' equity account.
B) contra asset account.  D) expense account.

9. A company spends $20 million dollars for an office building. Over what period should the cost be written off?
A) All in the first year
B) After $20 million in revenue is earned
C) When the $20 million is expended in cash
D) Over the useful life of the building

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

11. Which one of the following is not a justification for adjusting entries?
A) Adjusting entries are necessary to enable financial statements to be in conformity with GAAP.
B) Adjusting entries are necessary to ensure that revenue recognition principles are followed.
C) Adjusting entries are necessary to bring the general ledger accounts in line with the budget.
D) Adjusting entries are necessary to ensure that the matching principle is followed.

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

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

14. Miles is the term used to address:
A) Prior period adjusting entries of a closing nature within the comprehensive basis of accounting known of as conglomeration
B) Bob's son
C) Accounting for distances on the metric scale
D) Breaks in the sequence of accounting entries

15. 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) September 5    B) August 31    C) September 6    D) August 1

16. An adjusting entry would **not** include which of the following accounts?
A) Unearned Revenue    C) Cash
B) Property Tax Payable    D) Interest Receivable

17. Present value is based on
A) the length of time until the amount is received.  
B) the interest rate.  
C) the dollar amount to be received. 
D) all of these.

18. In a service-type business, revenue is considered earned
A) at the end of the year.  
B) when cash is received.  
C) at the end of the month. 
D) when the service is performed.

19. Adjustments would **not** be necessary if financial statements were prepared to reflect net income from
A) fiscal year operations.  
B) interim operations.  
C) lifetime operations. 
D) monthly operations.

20. The matching principle matches
A) expenses with revenues.  
B) creditors with businesses.  
C) customers with businesses. 
D) assets with liabilities.

21. Net income will result if gross profit exceeds
A) operating expenses.  
B) purchases.  
C) cost of goods sold plus operating expenses. 
D) cost of goods sold.

22. An adjusting entry
A) affects two income statement accounts.  
B) is always a compound entry.  
C) affects two balance sheet accounts. 
D) affects a balance sheet account and an income statement account.

23. The time period assumption states that
A) the economic life of a business can be divided into artificial time periods.  
B) a transaction can only affect one period of time.  
C) estimates should **not** be made if a transaction affects more than one time period. 
D) adjustments to the enterprise's accounts can only be made in the time period when the business terminates its operations.
24. Which of the following would **not** be considered a merchandising operation?
A) Merchandising company  B) Retailer  C) Wholesaler  D) Service firm

25. Which option below best describes the effects of compounding interest?
A) exponential; rate of growth increases over time
B) Declining slowly over time
C) Holding steady over time
D) Growing at a constant rate per year

26. Match the items below by entering the appropriate code letter in the space provided.

A. Net sales
B. Sales discount
C. Credit terms
D. Periodic inventory system
E. Gross profit rate
F. Contra revenue
G. Freight-out
H. Gross profit
I. Sales invoice
J. Purchase discount

1. A reduction given by the seller for prompt payment of a credit sale.
2. Provides support for a credit sale.
3. Gross profit divided by net sales.
4. Sales less sales returns and allowances and sales discounts.
5. Specifies the amount of cash discount and time period during which it is offered.
7. Freight cost to deliver goods to customers reported as an operating expense.
8. Requires a physical count of goods on hand to compute cost of goods sold.
9. A cash discount claimed by a buyer for prompt payment of a balance due.
10. An account that is offset against a revenue account on the income statement.

27. Using perpetual inventory, follow the below facts and state the required journal entry for each item along the way in the space provided:

I. Purchase goods for $100,000 on credit, terms 2/10n30 using the "GROSS" method for purchase discounts:

II. Pay $9,800 in cash within the discount period (i.e paid discounted amount):
III. Sell goods for $25,000, which cost $10,000:

IV. What would entry III above look like if using the PERIODIC inventory, then state what the limitation of this is:

28. On June 1, 2007, XYZ, Inc. paid $12,000 for twelve months of insurance coverage for the period June 1, 2007 through May 31, 2008. In the space provided below, please provide the journal entry required at each date (including any necessary adjusting journal entries).

   June 1, 2007 when paid:

   June 30, 2007:

   July 31, 2007:

   Assume that the Company had $100,000 of cash before the above, no other activity except for the above, and all adjusting entries are properly booked, please show the amount which should be reported as of December 31, 2007 for all accounts impacted by the above:
29. A company purchased equipment for $100,000 on January 1, 2004 and depreciates $1,000 each month. Based on these facts, please answer the following questions in the space provided:

What was the President's name in 1952? ____________________
What is the name of the contra-asset account related to equipment? ____________________.
What should be the balance in the "equipment" account as of October 31, 2007? ________________.
How much depreciation expense should be presented on the income statement for the 10 month period ended October 31, 2007? ________________.
How much accumulated depreciation should be recorded as of October 31, 2007? ________________.
What is the "Net Book Value" of the equipment as of October 31, 2007? ________________.

30. An item paid for in advance of receiving its benefit is called a ____________________, which is an (asset, liability, revenue or expense- circle one)
Receipt of cash before providing the good or service results in this balance sheet account: _________________, which is an (asset, liability, revenue or expense- circle one)
Recording revenue in advance of collection (or even before billed) is referred to as ________________, which is an (asset, liability, revenue or expense- circle one)
Recording an expense before or without receiving a bill is an example of an ________________, which is an (asset, liability, revenue or expense- circle one)
When wages have not been paid, but there is an entry to record wage expense, this is an example of an ________________.

What is the story this accounting entry is telling?
Unbilled accounts receivable $25,000
Revenue $25,000

What will be the journal entry related to the above transaction when the full amount is
billed to the customer?

What will be the journal entry related to the above when the full amount is collected from the customer?

31. You have $100,000 of inventory at the beginning of the year and use periodic inventory. During the year, you purchase $1,000,000 more inventory, sell a bunch of it and count $75,000 of inventory remaining at the end of the year. How much was your COGS during the year? _______________. 
Answer Key

1. D
2. C
3. B
4. D
5. A
6. D
7. D
8. B
9. D
10. D
11. C
12. C
13. C
14. B
15. B
16. C
17. D
18. D
19. C
20. A
21. A
22. D
23. A
24. D
25. A
2. I  7. G
3. E  8. D
5. C  10. F
27. Using perpetual inventory, follow the below facts and state the required journal entry for each item along the way in the space provided:

I. Purchase goods for $100,000 on credit, terms 2/10n30 using the "GROSS" method for purchase discounts:

<table>
<thead>
<tr>
<th>Inventory</th>
<th>$100,000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Accounts payable</td>
<td>$100,000</td>
</tr>
</tbody>
</table>

II. Pay $9,800 in cash within the discount period (i.e. paid discounted amount):

<table>
<thead>
<tr>
<th>Accounts payable</th>
<th>$10,000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash</td>
<td>$9,800</td>
</tr>
<tr>
<td>Sales discounts</td>
<td>$ 200</td>
</tr>
</tbody>
</table>

III. Sell goods for $25,000 cash, which cost $10,000:
Cash $25,000
Sales $25,000
COGS $10,000
Inventory $25,000

IV. What would entry III above be if using the PERIODIC inventory, then state what the limitation of this is:
Cash $25,000
Sales $25,000

This entry violates the matching principle as the COGS is not "matched" to the sales and there is inventory on the balance sheet which is no longer an asset.

28. June 1, 2007 when paid:
Prepaid expense/ insurance $12,000
Cash $12,000

June 30, 2007:
Insurance expense $1,000
Prepaid expense/ insurance $1,000

July 31, 2007:
Insurance expense $1,000
Prepaid expense/ insurance $1,000

ENDING BALANCES:
Cash $88,000
Prepaid expense/ insurance $5,000
Insurance expense $7,000

29. What was the President's name in 1952? George Bush
What is the name of the contra-asset account related to equipment? Accumulated depreciation.
What should be the balance in the "equipment" account as of October 31, 2007? $100,000.
How much depreciation expense should be presented on the income statement for the 10 month period ended October 31, 2007? $10,000.
How much accumulated depreciation should be recorded as of October 31, 2007? $46,000.
What is the "Net Book Value" of the equipment as of October 31, 2007? $54,000.

30. An item paid for in advance of receiving its benefit is called a PREPAID EXPENSE, which is an ASSET
Receipt of cash before providing the good or service results in this balance sheet account: UNEARNED REVENUE, which is an LIABILITY
Recording revenue in advance of collection (or even before billed) is referred to as ACCRUED REVENUE, which is an ASSET
Recording an expense before or without receiving a bill is an example of an
ACCRUED EXPENSE, which is an LIABILITY

When wages have not been paid, but there is an entry to record wage expense, this is an example of an ACCRUED EXPENSE.

What is the story this accounting entry is telling?
Unbilled accounts receivable $25,000
    Revenue $25,000
THIS IS AN ADJUSTING ENTRY TO RECORD EARNED REVENUE AND AN ASSET FOR THE BALANCE ULTIMATELY COLLECTIBLE.

What will be the journal entry related to the above transaction when the full amount is billed to the customer?
Accounts receivable $25,000
    Unbilled accounts receivable $25,000

What will be the journal entry related to the above when the full amount is collected from the customer?
Cash $25,000
    Accounts receivable $25,000

31. $1,025,000