1. What would you rather get?
   A) $0  B) $99 today  C) $100 in one year  D) $100 today

2. Which GAAP literature requires that the estimated fair value of a guarantee be recorded as a liability?
   A) SOX 404  B) SFAS 5  C) FIN 45  D) APB 16

3. What do you debit when you purchase inventory using the periodic inventory method?
   A) Accounts receivable  B) Inventory  C) Purchases  D) Accounts payable

4. Which factor below makes the effects of compounding interest more dramatic for a young person than an older person?
   A) Rate  B) Market conditions  C) Gray hair  D) Time

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

6. Which is not an application of revenue recognition?
   A) Accepting cash from an established customer for services to be performed over the next three months.
   B) Receiving cash for services performed.
   C) Recording revenue as an adjusting entry on the last day of the accounting period.
   D) Billing customers on June 30 for services completed during June.

7. A flower shop makes a large sale for $1,000 on November 30. The customer is sent a statement on December 5 and a check is received on December 10. The flower shop follows GAAP and applies the revenue recognition principle. When is the $1,000 considered to be earned?
   A) November 30  B) December 5  C) December 1  D) December 10

8. When using the periodic system the physical inventory count is used to determine
   A) both the cost of the goods in ending inventory and the sales value of goods sold during the period.
   B) only the cost of merchandise sold during the period.
   C) only the sales value of goods in the ending inventory.
   D) both the cost of the goods sold and the cost of ending inventory.
9. An accounting time period that is one year in length is called
   A) the time period assumption.       C) an interim period.
   B) a reporting period.              D) a fiscal year.

10. Which statement is incorrect?
    A) Computers and electronic scanners allow more companies to use a perpetual
        inventory system.
    B) Freight in is debited to merchandise inventory when a perpetual inventory system is
        used.
    C) Regardless of the inventory system that is used, companies should take a physical
        inventory count.
    D) Periodic inventory systems provide better control over inventories than perpetual
        inventory systems.

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

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

13. Which statement is correct?
    A) The cash basis of accounting is objective because no one can be certain of the
        amount of revenue until the cash is received.
    B) As long as a company consistently uses the cash basis of accounting, generally
        accepted accounting principles allow its use.
    C) As long as management is ethical, there are no problems with using the cash basis
        of accounting.
    D) The use of the cash basis of accounting violates both the revenue recognition and
        matching principles.

14. In a service-type business, revenue is considered earned
    A) when the service is performed.     C) at the end of the year.
    B) when cash is received.             D) at the end of the month.
15. If we sell an asset for $100,000 but will not receive the payment for five years (with no interest or other payments until then... i.e 0% interest), GAAP requires that we recognize the substance of that transaction over its legal form. Which statement below reflects this treatment?
   A) The transaction would be recorded for $100,000 as the sales price.
   B) The transaction would be recorded for more than $100,000 as the sales price.
   C) No transaction would be recorded.
   D) The transaction would be recorded for less than $100,000 as the sales price.

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

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

18. The cost of freight to receive inventory purchased by a company should be reported as:
   A) A reduction to sales of the inventory when the inventory is sold
   B) A reduction to sales immediately
   C) An expense as incurred
   D) An addition to inventory

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

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

21. A merchandiser will earn an operating income of exactly $0 when
   A) operating expenses equal net sales.
   B) net sales equals cost of goods sold.
   C) gross profit equals operating expenses.
   D) cost of goods sold equals gross margin.
22. Each of the following companies is a merchandising company except a
   A) furniture store.  C) candy store.
   B) wholesale parts company.  D) moving company.

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

24. Sales revenue less cost of goods sold is called

25. 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.
26. State ALL applicable journal entry for each transaction listed below:

(1) Hire a new CFO for an annual salary of $200,000/ year:

(2) Purchase inventory for $50,000 using the perpetual system:

(3) Sell goods for $70,000 which cost $40,000. Credit terms were offered to the customer which were 2/10n30 and we report the transaction "gross":

(4) Collect $68,600 from the customer noted in (3) above... payment received less than 10 days from date of invoice (i.e within the discount period):

(5) Perform $22,000 worth of services for a customer to whom we have not yet billed, nor collected any amounts from yet:

(6) Bill the customer in (5) above for $22,000.

(7) Collect the $22,000 from (6) above.

(8) Pay your rent on the first of the month.

(9) Any adjusting entry related to (8) above?
(10) Pay an illegal $25,000 bribe to a public official for a project which is expected to be completed in the future.

27. 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 _________________.

The entries to "zero-out" the temporary accounts to retained earnings are called "_______________" entries.

What is the story this accounting entry is telling?
Accounts receivable $25,000
    Unbilled receivable $25,000
28. Purchase goods for $15,000 on credit without any discount terms. Record the journal entry under both periodic and perpetual inventory:

PERIODIC JOURNAL ENTRY:

PERPETUAL JOURNAL ENTRY:

29. You have $200,000 of inventory at the beginning of the year and use periodic inventory. During the year, you purchase $1,000,000 more inventory with terms 2/10n30, and report this using the "gross" method. Subsequently you return $25,000 of inventory to your vendor for full credit, pay the balance owed to the vendor for the purchase noted above within the applicable discount period, and sell a bunch of it. At the end of the period, you count $75,000 of inventory remaining. How much was your COGS during the year? _______________.

30. Payright, Inc. last paid payroll on December 27, 2007 when there remained 3 working days until December 31, 2007. They incur $1,000 each day for payroll and the next payroll of $10,000 will be paid on January 12, 2008. Please indicate any adjusting journal entries required on December 31, 2007:

Record the journal entry which should be recorded when the $10,000 payroll payment is made on January 12, 2008:
31. A company purchased equipment for $36,000 with cash 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 is the journal entry which should be recorded on January 1, 2004 when the equipment is purchased?

What is the journal entry which should be recorded at the end of the first month?

What is the journal entry which should be recorded at the end of the third month?

What is the journal entry which should be recorded at the end of the 36th month?

What should be the balance in the "equipment" account as of October 31, 2006? _____________.
How much depreciation expense should be presented on the income statement for the 10 month period ended October 31, 2006? ________________.
How much accumulated depreciation should be recorded as of October 31, 2006? ________________.
What is the "Net Book Value" of the equipment as of October 31, 2006? ________________.
Answer Key

1. D
2. C
3. C
4. D
5. C
6. A
7. A
8. D
9. D
10. D
11. C
12. B
13. D
14. A
15. D
16. A
17. C
18. D
19. B
20. D
21. C
22. D
23. D
24. D
25. D
26. (1) Hire a new CFO for an annual salary of $200,000/year:
   NO ENTRY
(2) Purchase inventory for $50,000 using the perpetual system and pay cash for the purchase:
   INVENTORY      50,000
   CASH                   50,000
(3) Sell goods for $70,000 which cost $40,000. Credit terms were offered to the customer which were 2/10n30 and we report the transaction "gross":
   ACCOUNTS RECEIVABLE    70,000
   SALES                                                        70,000
   COGS                                         40,000
   INVENTORY                                             40,000
(4) Collect $68,600 from the customer noted in (3) above... payment received less than 10 days from date of invoice (i.e within the discount period):
   CASH                                          68,600
   ACCOUNTS RECEIVABLE                  70,000
   SALES DISCOUNTS                  1,400
(5) Perform $22,000 worth of services for a customer to whom we have not yet billed, nor collected any amounts from yet:
   UNBILLED RECEIVABLE     22,000
   REVENUE (SALES)                                   22,000
(6) Bill the customer in (5) above for $22,000.
   ACCOUNTS RECEIVABLE    22,000
   UNBILLED RECEIVABLE                      22,000
(7) Collect the $22,000 from (6) above.
   CASH                                         22,000
   ACCOUNTS RECEIVABLE                     22,000
(8) Pay $800 for rent on the first of the month.
   PREPAID RENT (OR EXP.)  800
   CASH                                                             800
(9) Any adjusting entry related to (8) above? If so state WHEN it is required and WHAT the entry would be.
   END OF THE MONTH:
   RENT EXPENSE                        800
   PREPAID RENT                         800
(10) Pay an illegal $25,000 bribe to a public official for a project which is expected to be completed in the future.
   NO POINTS... IM JUST INTERESTED IN SEEING THE ANSWERS!!
27. An item paid for in advance of receiving its benefit is called a **PREPAID EXPENSE**, 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: **UNEARNED REVENUE**___, which is an (asset, LIABILITY, revenue or expense- circle one)

Recording revenue in advance of collection (or even before billed) is referred to as **ACCRUED REVENUE**, which is an (asset, liability, revenue or expense- circle one)

Recording an expense before or without receiving a bill is an example of an _**ACCRUED EXPENSE**_, 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 **ADJUSTING ENTRY OR ACCRUAL ENTRY**.

The entries to "zero-out" the temporary accounts to retained earnings are called "CLOSING" entries.

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

A revenue which had been earned but not billed or collected was billed.

28. **PERIODIC JOURNAL ENTRY:**

   **Purchases** $15,000
   Accounts payable $15,000

**PERPETUAL JOURNAL ENTRY:**

   **Inventory** $15,000
   Accounts payable $15,000

29. Beginning 200,000

   **Purchases** 1,000,000
   Returns <25,000>
   Discounts <19,500> (1,000,000-25,000=975,000*2% discount taken)
   Ending Inventory <75,000>
   COGS 1,080,500
30. What was the President's name in 1952? ___GEORGE BUSH_____________________

What is the name of the contra-asset account related to equipment? ___ACCUMULATED DEPRECIATION___.

31. What is the journal entry which should be recorded on January 1, 2004 when the equipment is purchased?

   EQUIPMENT       36,000
   CASH             36,000

What is the journal entry which should be recorded at the end of the first month?

   DEPRECIATION EXPENSE   1,000
   ACCUMULATED DEPRECIATION 1,000

What is the journal entry which should be recorded at the end of the third month?

   DEPRECIATION EXPENSE   1,000
   ACCUMULATED DEPRECIATION 1,000

What is the journal entry which should be recorded at the end of the 36th month?

   DEPRECIATION EXPENSE   1,000
   ACCUMULATED DEPRECIATION 1,000

What should be the balance in the "equipment" account as of October 31, 2006? 

   ______36,000_________

How much depreciation expense should be presented on the income statement for the 10 month period ended October 31, 2006? __10,000__.

How much accumulated depreciation should be recorded as of October 31, 2006? 

   ______34,000_________

What is the "Net Book Value" of the equipment as of October 31, 2006? 

   ______2,000_____

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

2. Which statement is correct?
   A) As long as management is ethical, there are no problems with using the cash basis of accounting.
   B) As long as a company consistently uses the cash basis of accounting, generally accepted accounting principles allow its use.
   C) The use of the cash basis of accounting violates both the revenue recognition and matching principles.
   D) The cash basis of accounting is objective because no one can be certain of the amount of revenue until the cash is received.

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

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

5. Which factor below makes the effects of compounding interest more dramatic for a young person than an older person?
   A) Market conditions  B) Gray hair  C) Rate  D) Time

6. When using the periodic system the physical inventory count is used to determine
   A) both the cost of the goods in ending inventory and the sales value of goods sold during the period.
   B) only the cost of merchandise sold during the period.
   C) only the sales value of goods in the ending inventory.
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7. Which is not an application of revenue recognition?
   A) Receiving cash for services performed.
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   D) Accepting cash from an established customer for services to be performed over the next three months.

8. If we sell an asset for $100,000 but will not receive the payment for five years (with no interest or other payments until then... i.e 0% interest), GAAP requires that we recognize the substance of that transaction over its legal form. Which statement below reflects this treatment?
   A) The transaction would be recorded for less than $100,000 as the sales price.
   B) The transaction would be recorded for $100,000 as the sales price.
   C) No transaction would be recorded.
   D) The transaction would be recorded for more than $100,000 as the sales price.

9. A flower shop makes a large sale for $1,000 on November 30. The customer is sent a statement on December 5 and a check is received on December 10. The flower shop follows GAAP and applies the revenue recognition principle. When is the $1,000 considered to be earned?
   A) December 10  B) November 30  C) December 1  D) December 5

10. Which GAAP literature requires that the estimated fair value of a guarantee be recorded as a liability?
    A) APB 16  B) SOX 404  C) FIN 45  D) SFAS 5

11. Which option below best describes the effects of compounding interest?
    A) exponential; rate of growth increases over time
    B) Growing at a constant rate per year
    C) Declining slowly over time
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12. Adjustments would not be necessary if financial statements were prepared to reflect net income from
    A) interim operations.  C) fiscal year operations.
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    A) the time period assumption.  C) an interim period.
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14. A company spends $20 million dollars for an office building. Over what period should the cost be written off?
   A) Over the useful life of the building
   B) When the $20 million is expended in cash
   C) After $20 million in revenue is earned
   D) All in the first year

15. What do you debit when you purchase inventory using the periodic inventory method?
   A) Accounts receivable  B) Inventory  C) Purchases  D) Accounts payable

16. What would you rather get?
   A) $100 in one year  B) $0  C) $99 today  D) $100 today

17. Which statement is incorrect?
   A) Regardless of the inventory system that is used, companies should take a physical inventory count.
   B) Periodic inventory systems provide better control over inventories than perpetual inventory systems.
   C) Computers and electronic scanners allow more companies to use a perpetual inventory system.
   D) Freight in is debited to merchandise inventory when a perpetual inventory system is used.

18. The cost of freight to receive inventory purchased by a company should be reported as:
   A) A reduction to sales immediately
   B) An addition to inventory
   C) An expense as incurred
   D) A reduction to sales of the inventory when the inventory is sold

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

20. Each of the following companies is a merchandising company except a
    A) moving company.  C) furniture store.
    B) wholesale parts company.  D) candy store.

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    A) the account purchase returns and allowances is credited when goods are returned to vendors.
    B) accounting records continuously disclose the amount of inventory.
    C) increases in inventory resulting from purchases are debited to purchases.
    D) there is no need for a year-end physical count.
22. Gross profit equals the difference between
   A) net sales revenues and cost of goods sold plus operating expenses.
   B) net sales revenues and operating expenses.
   C) net income and operating expenses.
   D) net sales revenues and cost of goods sold.

23. A merchandiser will earn an operating income of exactly $0 when
   A) gross profit equals operating expenses.
   B) operating expenses equal net sales.
   C) net sales equals cost of goods sold.
   D) cost of goods sold equals gross margin.

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

25. Sales revenue less cost of goods sold is called

26. Purchase goods for $15,000 on credit without any discount terms. Record the journal entry under both periodic and perpetual inventory:

   PERIODIC JOURNAL ENTRY:

   PERPETUAL JOURNAL ENTRY:
27. A company purchased equipment for $36,000 with cash 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 is the journal entry which should be recorded on January 1, 2004 when the equipment is purchased?

What is the journal entry which should be recorded at the end of the first month?

What is the journal entry which should be recorded at the end of the third month?

What is the journal entry which should be recorded at the end of the 36th month?

What should be the balance in the "equipment" account as of October 31, 2006? ________________.

How much depreciation expense should be presented on the income statement for the 10 month period ended October 31, 2006? ________________.

How much accumulated depreciation should be recorded as of October 31, 2006? ________________.

What is the "Net Book Value" of the equipment as of October 31, 2006? ________________. 
28. Payright, Inc. last paid payroll on December 27, 2007 when there remained 3 working days until December 31, 2007. They incur $1,000 each day for payroll and the next payroll of $10,000 will be paid on January 12, 2008. Please indicate any adjusting journal entries required on December 31, 2007:

Record the journal entry which should be recorded when the $10,000 payroll payment is made on January 12, 2008:
29. State ALL applicable journal entry for each transaction listed below:

(1) Hire a new CFO for an annual salary of $200,000/ year:

(2) Purchase inventory for $50,000 using the perpetual system:

(3) Sell goods for $70,000 which cost $40,000. Credit terms were offered to the customer which were 2/10n30 and we report the transaction "gross":

(4) Collect $68,600 from the customer noted in (3) above... payment received less than 10 days from date of invoice (i.e within the discount period):

(5) Perform $22,000 worth of services for a customer to whom we have not yet billed, nor collected any amounts from yet:

(6) Bill the customer in (5) above for $22,000.

(7) Collect the $22,000 from (6) above.

(8) Pay your rent on the first of the month.

(9) Any adjusting entry related to (8) above?
(10) Pay an illegal $25,000 bribe to a public official for a project which is expected to be completed in the future.

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 ________________.

The entries to "zero-out" the temporary accounts to retained earnings are called "________________" entries.

What is the story this accounting entry is telling?

<table>
<thead>
<tr>
<th>Accounts receivable</th>
<th>$25,000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Unbilled receivable</td>
<td>$25,000</td>
</tr>
</tbody>
</table>
31. You have $200,000 of inventory at the beginning of the year and use periodic inventory. During the year, you purchase $1,000,000 more inventory with terms 2/10n30, and report this using the "gross" method. Subsequently you return $25,000 of inventory to your vendor for full credit, pay the balance owed to the vendor for the purchase noted above within the applicable discount period, and sell a bunch of it. At the end of the period, you count $75,000 of inventory remaining. How much was your COGS during the year? ________________.
Answer Key

1. C
2. C
3. B
4. C
5. D
6. D
7. D
8. A
9. B
10. C
11. A
12. B
13. D
14. A
15. C
16. D
17. B
18. B
19. C
20. A
21. B
22. D
23. A
24. A
25. D
26. PERIODIC JOURNAL ENTRY:
   Purchases $15,000
   Accounts payable $15,000

   PERPETUAL JOURNAL ENTRY:
   Inventory $15,000
   Accounts payable $15,000
27. 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 is the journal entry which should be recorded on January 1, 2004 when the equipment is purchased?

EQUIPMENT 36,000
CASH 36,000

What is the journal entry which should be recorded at the end of the first month?

DEPRECIATION EXPENSE 1,000
ACCUMULATED DEPRECIATION 1,000

What is the journal entry which should be recorded at the end of the third month?

DEPRECIATION EXPENSE 1,000
ACCUMULATED DEPRECIATION 1,000

What is the journal entry which should be recorded at the end of the 36th month?

DEPRECIATION EXPENSE 1,000
ACCUMULATED DEPRECIATION 1,000

What should be the balance in the "equipment" account as of October 31, 2006? 36,000

How much depreciation expense should be presented on the income statement for the 10 month period ended October 31, 2006? 10,000

How much accumulated depreciation should be recorded as of October 31, 2006? 34,000

What is the "Net Book Value" of the equipment as of October 31, 2006? 2,000

28.
29.  (1) Hire a new CFO for an annual salary of $200,000/ year:

**NO ENTRY**

(2) Purchase inventory for $50,000 using the perpetual system and pay cash for the purchase:

**INVENTORY** 50,000  
**CASH** 50,000  

(3) Sell goods for $70,000 which cost $40,000. Credit terms were offered to the customer which were 2/10n30 and we report the transaction "gross":

**ACCOUNTS RECEIVABLE** 70,000  
**SALES** 70,000  
**COGS** 40,000  
**INVENTORY** 40,000  

(4) Collect $68,600 from the customer noted in (3) above... payment received less than 10 days from date of invoice (i.e within the discount period):

**CASH** 68,600  
**ACCOUNTS RECEIVABLE** 70,000  
**SALES DISCOUNTS** 1,400  

(5) Perform $22,000 worth of services for a customer to whom we have not yet billed, nor collected any amounts from yet:

**UNBILLED RECEIVABLE** 22,000  
**REVENUE (SALES)** 22,000  

(6) Bill the customer in (5) above for $22,000.

**ACCOUNTS RECEIVABLE** 22,000  
**UNBILLED RECEIVABLE** 22,000  

(7) Collect the $22,000 from (6) above.

**CASH** 22,000  
**ACCOUNTS RECEIVABLE** 22,000  

(8) Pay $800 for rent on the first of the month.

**PREPAID RENT (OR EXP.)** 800  
**CASH** 800  

(9) Any adjusting entry related to (8) above? If so state WHEN it is required and WHAT the entry would be.

**END OF THE MONTH:**

**RENT EXPENSE** 800  
**PREPAID RENT** 800  

(10) Pay an illegal $25,000 bribe to a public official for a project which is expected to be completed in the future.

**NO POINTS... IM JUST INTERESTED IN SEEING THE ANSWERS!!**
30. An item paid for in advance of receiving its benefit is called a **PREPAID EXPENSE**, 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: **UNEARNED REVENUE**, which is an (asset, liability, revenue or expense- circle one)

Recording revenue in advance of collection (or even before billed) is referred to as **ACCRUED REVENUE**, which is an (asset, liability, revenue or expense- circle one)

Recording an expense before or without receiving a bill is an example of an **ACCRUED EXPENSE**, 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 **ADJUSTING ENTRY OR ACCRUAL ENTRY**.

The entries to "zero-out" the temporary accounts to retained earnings are called "CLOSING" entries.

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

**A revenue which had been earned but not billed or collected was billed.**

31. Beginning 200,000
Purchases 1,000,000
Returns <25,000>
Discounts <19,500> (1,000,000-25,000=975,000*2% discount taken)
Ending Inventory <75,000>
COGS 1,080,500
1. Which statement is incorrect?
   A) Freight in is debited to merchandise inventory when a perpetual inventory system is used.
   B) Periodic inventory systems provide better control over inventories than perpetual inventory systems.
   C) Regardless of the inventory system that is used, companies should take a physical inventory count.
   D) Computers and electronic scanners allow more companies to use a perpetual inventory system.

2. 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

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

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

5. 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.

6. What do you debit when you purchase inventory using the periodic inventory method?
   A) Accounts payable   B) Accounts receivable   C) Purchases   D) Inventory
7. A company spends $20 million dollars for an office building. Over what period should the cost be written off?
   A) After $20 million in revenue is earned
   B) When the $20 million is expended in cash
   C) All in the first year
   D) Over the useful life of the building

8. Which statement is correct?
   A) As long as management is ethical, there are no problems with using the cash basis of accounting.
   B) The cash basis of accounting is objective because no one can be certain of the amount of revenue until the cash is received.
   C) As long as a company consistently uses the cash basis of accounting, generally accepted accounting principles allow its use.
   D) The use of the cash basis of accounting violates both the revenue recognition and matching principles.

9. If we sell an asset for $100,000 but will not receive the payment for five years (with no interest or other payments until then... i.e 0% interest), GAAP requires that we recognize the substance of that transaction over its legal form. Which statement below reflects this treatment?
   A) The transaction would be recorded for less than $100,000 as the sales price.
   B) The transaction would be recorded for $100,000 as the sales price.
   C) No transaction would be recorded.
   D) The transaction would be recorded for more than $100,000 as the sales price.

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

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

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

13. Which GAAP literature requires that the estimated fair value of a guarantee be recorded as a liability?
    A) SOX 404    B) APB 16    C) SFAS 5    D) FIN 45
14. Which factor below makes the effects of compounding interest more dramatic for a young person than an older person?
   A) Gray hair  B) Market conditions  C) Time  D) Rate

15. Which is not an application of revenue recognition?
   A) Billing customers on June 30 for services completed during June.
   B) Receiving cash for services performed.
   C) Accepting cash from an established customer for services to be performed over the next three months.
   D) Recording revenue as an adjusting entry on the last day of the accounting period.

16. A flower shop makes a large sale for $1,000 on November 30. The customer is sent a statement on December 5 and a check is received on December 10. The flower shop follows GAAP and applies the revenue recognition principle. When is the $1,000 considered to be earned?
   A) November 30  B) December 1  C) December 10  D) December 5

17. What would you rather get?
   A) $0  B) $99 today  C) $100 in one year  D) $100 today

18. The cost of freight to receive inventory purchased by a company should be reported as:
   A) A reduction to sales immediately
   B) A reduction to sales of the inventory when the inventory is sold
   C) An addition to inventory
   D) An expense as incurred

19. A merchandiser will earn an operating income of exactly $0 when
   A) operating expenses equal net sales.  C) cost of goods sold equals gross margin.
   B) gross profit equals operating expenses.  D) net sales equals cost of goods sold.

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

21. Which of the following activities is **not** a component of the operating cycle?
   A) Purchase of merchandise
   B) Collection of cash from merchandise sales
   C) Sale of merchandise
   D) Payment of employees' salaries
22. Sales revenue less cost of goods sold is called

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

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

25. Each of the following companies is a merchandising company except a
   A) furniture store.  C) wholesale parts company.
   B) moving company.  D) candy store.

26. Payright, Inc. last paid payroll on December 27, 2007 when there remained 3 working
days until December 31, 2007. They incur $1,000 each day for payroll and the next
payroll of $10,000 will be paid on January 12, 2008. Please indicate any adjusting
journal entries required on December 31, 2007:

   Record the journal entry which should be recorded when the $10,000 payroll payment is
   made on January 12, 2008:

27. You have $200,000 of inventory at the beginning of the year and use periodic inventory.
   During the year, you purchase $1,000,000 more inventory with terms 2/10n30, and
   report this using the "gross" method. Subsequently you return $25,000 of inventory to
   your vendor for full credit, pay the balance owed to the vendor for the purchase noted
   above within the applicable discount period, and sell a bunch of it. At the end of the
   period, you count $75,000 of inventory remaining. How much was your COGS during
   the year? _______________.
28. A company purchased equipment for $36,000 with cash 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 is the journal entry which should be recorded on January 1, 2004 when the equipment is purchased?

What is the journal entry which should be recorded at the end of the first month?

What is the journal entry which should be recorded at the end of the third month?

What is the journal entry which should be recorded at the end of the 36th month?

What should be the balance in the "equipment" account as of October 31, 2006? ___________________
How much depreciation expense should be presented on the income statement for the 10 month period ended October 31, 2006? ________________.
How much accumulated depreciation should be recorded as of October 31, 2006? ________________.
What is the "Net Book Value" of the equipment as of October 31, 2006? ________________.

29. Purchase goods for $15,000 on credit without any discount terms. Record the journal entry under both periodic and perpetual inventory:

PERIODIC JOURNAL ENTRY:

PERPETUAL JOURNAL ENTRY:
30. State ALL applicable journal entry for each transaction listed below:

(1) Hire a new CFO for an annual salary of $200,000/year:

(2) Purchase inventory for $50,000 using the perpetual system:

(3) Sell goods for $70,000 which cost $40,000. Credit terms were offered to the customer which were 2/10n30 and we report the transaction "gross":

(4) Collect $68,600 from the customer noted in (3) above... payment received less than 10 days from date of invoice (i.e within the discount period):

(5) Perform $22,000 worth of services for a customer to whom we have not yet billed, nor collected any amounts from yet:

(6) Bill the customer in (5) above for $22,000.

(7) Collect the $22,000 from (6) above.

(8) Pay your rent on the first of the month.

(9) Any adjusting entry related to (8) above?
(10) Pay an illegal $25,000 bribe to a public official for a project which is expected to be completed in the future.

31. 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 _______________.

The entries to "zero-out" the temporary accounts to retained earnings are called "________________" entries.

What is the story this accounting entry is telling?

Accounts receivable $25,000
    Unbilled receivable $25,000
Answer Key

1. B
2. A
3. D
4. D
5. D
6. C
7. D
8. D
9. A
10. A
11. B
12. D
13. D
14. C
15. C
16. A
17. D
18. C
19. B
20. B
21. D
22. D
23. A
24. D
25. B
26.

27. Beginning 200,000
   Purchases 1,000,000
   Returns <25,000>
   Discounts <19,500> (1,000,000-25,000=975,000*2% discount taken)
   Ending Inventory <75,000>
   COGS 1,080,500
28. 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 is the journal entry which should be recorded on January 1, 2004 when the equipment is purchased?
EQUIPMENT        36,000
CASH 36,000

What is the journal entry which should be recorded at the end of the first month?
DEPRECIATION EXPENSE 1,000
ACCUMULATED DEPRECIATION 1,000

What is the journal entry which should be recorded at the end of the third month?
DEPRECIATION EXPENSE 1,000
ACCUMULATED DEPRECIATION 1,000

What is the journal entry which should be recorded at the end of the 36th month?
DEPRECIATION EXPENSE 1,000
ACCUMULATED DEPRECIATION 1,000

What should be the balance in the "equipment" account as of October 31, 2006?
_______36,000__________.

How much depreciation expense should be presented on the income statement for the 10 month period ended October 31, 2006? ___10,000____.

How much accumulated depreciation should be recorded as of October 31, 2006?
_______34,000_______.

What is the "Net Book Value" of the equipment as of October 31, 2006?
____2,000______.

29. PERIODIC JOURNAL ENTRY:
Purchases $15,000
Accounts payable $15,000

PERPETUAL JOURNAL ENTRY:
Inventory $15,000
Accounts payable $15,000
30. (1) Hire a new CFO for an annual salary of $200,000/year:
   NO ENTRY
(2) Purchase inventory for $50,000 using the perpetual system and pay cash for the purchase:
   INVENTORY 50,000
   CASH 50,000
(3) Sell goods for $70,000 which cost $40,000. Credit terms were offered to the customer which were 2/10n30 and we report the transaction "gross":
   ACCOUNTS RECEIVABLE 70,000
   SALES 70,000
   COGS 40,000
   INVENTORY 40,000
(4) Collect $68,600 from the customer noted in (3) above... payment received less than 10 days from date of invoice (i.e within the discount period):
   CASH 68,600
   ACCOUNTS RECEIVABLE 70,000
   SALES DISCOUNTS 1,400
(5) Perform $22,000 worth of services for a customer to whom we have not yet billed, nor collected any amounts from yet:
   UNBILLED RECEIVABLE 22,000
   REVENUE (SALES) 22,000
(6) Bill the customer in (5) above for $22,000.
   ACCOUNTS RECEIVABLE 22,000
   UNBILLED RECEIVABLE 22,000
(7) Collect the $22,000 from (6) above.
   CASH 22,000
   ACCOUNTS RECEIVABLE 22,000
(8) Pay $800 for rent on the first of the month.
   PREPAID RENT (OR EXP.) 800
   CASH 800
(9) Any adjusting entry related to (8) above? If so state WHEN it is required and WHAT the entry would be.
   END OF THE MONTH:
   RENT EXPENSE 800
   PREPAID RENT 800
(10) Pay an illegal $25,000 bribe to a public official for a project which is expected to be completed in the future.
   NO POINTS... IM JUST INTERESTED IN SEEING THE ANSWERS!!
31. An item paid for in advance of receiving its benefit is called a **PREPAID EXPENSE**, 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: **UNEARNED REVENUE**, which is an (asset, **LIABILITY**, revenue or expense- circle one)

Recording revenue in advance of collection (or even before billed) is referred to as **ACCRUED REVENUE**, which is an (asset, liability, revenue or expense- circle one)

Recording an expense before or without receiving a bill is an example of an _ACCRUED EXPENSE_, 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 **ADJUSTING ENTRY OR ACCRUAL ENTRY**.

The entries to "zero-out" the temporary accounts to retained earnings are called "CLOSING" entries.

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

A revenue which had been earned but not billed or collected was billed.