

Student Academic Resource Center

Block 2 Extra Practice by Joana Marinova, Peer Tutor

Source: Harrison, Walter T., Jr., and Charles T. Horngren. *Financial Accounting*. 3rd ed. Boston: Pearson, 2008. Print. Custom Edition.

Ch. 4 p.241

1. Internal Control has its own terminology. Match each internal control concept with its term by writing the appropriate letter in the space provided. Not all letters are used.

	This procedure limits access to sensitive data
	This type of insurance policy covers losses due to employee theft.
	Trusting your employees can lead you to overlook this procedure.
	The most basic purpose of internal control.
	Internal control cannot always safeguard against this problem.
	Often mentioned as the cornerstone of a good system of internal control.
	Pay employees enough to require them to do a good job.

Word Bank

- | | | |
|-------------------------|------------------------|--------------------|
| a. Competent personnel | d. Safeguarding assets | g. Firewalls |
| b. Encryption | e. Fidelity bond | h. Supervision |
| c. Separation of duties | f. Collusion | i. External audits |
2. Each of the following is an example of a control procedure, **except**
- A sound marketing plan.
 - Sound personnel procedures.
 - Limited access to assets.
 - Separation of duties.
3. Which of the following is an example of poor internal control?
- The accounting department compares goods received with the related purchase order.
 - Employees must take vacations.
 - Rotate employees through various jobs.
 - The mailroom clerk records daily cash receipts in the journal.

Cape Florida Corporation has asked you to prepare its bank reconciliation at the end of the current month. Answer questions 4-8 using the following code letters to indicate how the item described would be reported on the bank reconciliation.

- | | |
|---|---------------------------------|
| a. Deduct from the book balance | d. Deduct from the bank balance |
| b. Does not belong on the bank reconciliation | e. Add to the book balance |
| c. Add to the bank balance | |

4. A check for \$435 written by Cape Florida Corporation during the current month was erroneously recorded as a \$354 payment.
5. A \$250 deposit made on the last day of the current month did not appear on this month's bank statement.
6. The bank statement showed interest earned of \$45.
7. The bank statement included a check from a customer that was marked NSF.
8. The bank statement showed the bank had credited Cape Florida's account for a \$600 deposit made by Key West Company.
9. Which of the following reconciling items does not require a journal entry?
 - a. NSF check
 - b. Deposit in transit
 - c. Bank collection of not receivable
 - d. Bank service charge
10. A check written for \$628 to purchase supplies. The check was recorded in the journal as \$682. The entry to correct this error would:
 - a. Increase supplies, \$54
 - b. Decrease supplies, \$54
 - c. Decrease cash, \$54
 - d. Both a and c
11. A cash budget helps control cash by
 - a. Developing a plan for increasing sales.
 - b. Ensuring accurate cash records.
 - c. Helping determine whether additional cash is available for investments or new financing is needed.
 - d. All the above.

Ch. 5 p.286 - 288

1. Black and Gold, Inc. held trading investments valued at \$55,000 at December 31, 2016. These investments cost them \$50,000 originally. What is the appropriate amount for Black and Gold, Inc. to report for these investments on the December 31, 2016 balance sheet?
 - a. \$50,000
 - b. \$55,000
 - c. \$5,000 gain
 - d. Cannot be determined from the given data
2. Reference Black and Gold, Inc. in question 1. What should appear on the income statement for the year ended on December 31, 2016 for the trading investments?
 - a. \$50,000
 - b. \$55,000
 - c. \$5,000 unrealized gain
 - d. Cannot be determined from the given data

Use the following information to answer questions 3-7.

Student Union Corporation had the following information relating to credit sales in 2016:

Accounts receivable 12/31/16	\$8,000
Allowance for uncollectable accounts 12/31/16 (Before adjustment)	\$750
Credit sales during 2016	\$38,000
Cash sales during 2016	\$12,000
Collections from customers on account during 2016	\$41,000

3. Uncollectible accounts are determined by the percent-of-sales method to be 2% of credit sales. How much is uncollectable-account expense for 2016?
 - a. \$760
 - b. \$1,000
 - c. \$3,000
 - d. \$10
4. Using the percent-of-sales method, what is the adjusted balance in the Allowance account at year end 2016?
 - a. \$750
 - b. \$760
 - c. \$1,750
 - d. \$1,510
5. If uncollectible accounts are determined by the aging-of-receivables method to be \$1,140, the uncollectible amount expense for 2016 would be:
 - a. \$390
 - b. \$750
 - c. \$760
 - d. \$1,140
6. Given that uncollectible accounts are determined by aging-of-receivables method to be \$1,140, the balance of the allowance account after the adjusting entry would be:
 - a. \$390
 - b. \$750
 - c. \$760
 - d. \$1,140
7. Assuming that the aging-of-receivables method is used with a balance of \$1,140, the net realizable values of accounts receivable on the 12/31/16 balance sheet would be:
 - a. \$6,110
 - b. \$6,860
 - c. \$7,250
 - d. \$8,000
8. Accounts Receivable has a debit balance of \$2,300, and the Allowance for Uncollectible Accounts has a credit of \$200. An \$80 account receivable is written off. What is the amount of net receivables (net realizable value) after the write off?
 - a. \$2,020
 - b. \$2,100
 - c. \$2,180
 - d. \$2,220
9. Sand, LLC began 2016 with Accounts Receivable of \$500,000. Sales for the year totaled \$2,000,000. Sand, LLC ended the year with accounts receivable of \$600,000. Sand's bad-debt losses are minimal. How much cash did Sand, LLC collect from customers in 2016?
 - a. \$1,900,000
 - b. \$1,940,000
 - c. \$2,000,000
 - d. \$2,600,000

10. Saturn Company issued a 2 month, 8%, \$1,500 note receivable on December 1 to Jupiter, LLC. The adjusting entry on December 31 will:
- Debit Interest Receivable \$10
 - Credit Interest Revenue \$10
 - Both a and b
 - Credit Interest Revenue \$120
11. What is the maturity value of a \$30,000, 10%, 6-month note?
- \$25,000
 - \$30,000
 - \$31,500
 - \$33,000
12. If the adjusting entry to accrue interest on a note receivable is omitted, then:
- Assets, net income and stockholders' equity are overstated.
 - Assets, net income, and stockholders' equity are understated.
 - Liabilities are understated, net income is overstated, and stockholders' equity is overstated.
 - Assets are overstated, net income is understated, and stockholders' equity is understated.

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- Which statement is true?
 - The sales account is used to record only sales on account
 - The invoice is the customer's request for collection from the company
 - Gross profit is the excess of sales revenue over cost of goods sold
 - A service company purchases products from suppliers and then sells them
- Sales discounts should appear in the financial statements:
 - As an addition to inventory
 - As an addition to sales
 - As an operating expense
 - Among the current liabilities
 - As a deduction from sales
- How is inventory classified in the financial statements?
 - As an asset
 - As a liability as an expense
 - As a revenue
 - As a contra account to Cost of Goods Sold

Questions 4-7 use the following data of Manatee, Inc. The company sold 45 units at \$15 each.

	Units	Unit Cost	Total Cost
Beginning inventory	20	\$6	\$120
Purchase on May 23	30	7	210
Purchase on Nov 5	15	8	120

4. Manatee uses a FIFO inventory system. Cost of goods sold for the period is:
 - a. \$295
 - b. \$347
 - c. \$355
 - d. \$365
5. Manatee's LIFO cost of ending inventory would be:
 - a. \$161
 - b. \$90
 - c. \$120
 - d. \$225
6. Manatee's average cost of goods sold is:
 - a. \$161
 - b. \$312
 - c. \$208
 - d. \$104
7. Using the LIFO method, the gross profit is:
 - a. \$340
 - b. \$355
 - c. \$360
 - d. \$345
8. During a period of rising prices, the inventory method that will yield the highest net income and asset value is:
 - a. Specific identification
 - b. Average cost
 - c. LIFO
 - d. FIFO
9. Which statement is true?
 - a. The inventory method that best matches current expense with current revenue is FIFO
 - b. Application of the lower-of-cost-or-market rule often results in a lower inventory value
 - c. An error overstating ending inventory in 2015 will understate 2016 net income
 - d. When prices are rising, the inventory method that results in lowest ending inventory value is FIFO
10. The ending inventory of Bar Harbor Co. is \$44,000. If the beginning inventory was \$50,000 and goods available totaled \$104,000, the cost of goods sold is:
 - a. \$112,000
 - b. \$198,000
 - c. \$60,000
 - d. \$50,000
11. Bell Company had cost of goods sold of \$130,000. The beginning and ending balance inventories were \$10,000 and \$20,000, respectively. Purchases for the period must have been:
 - a. \$82,000
 - b. \$94,000
 - c. \$132,000
 - d. \$140,000

Use the following information to answer 12-14

12. Tee Company had a \$20,000 beginning inventory and a \$24,000 ending inventory. Net sales were \$160,000; purchases, \$80,000; purchase returns and allowances, \$5,000 and freight-in, \$6,000. Cost of goods sold for the period is:
- \$69,000
 - \$49,000
 - \$77,000
 - \$85,000
 - None of the above
13. What is Tee's gross profit percentage (rounded to the nearest percent)?
- 52%
 - 88%
 - 47%
 - None of the above
14. What is Tee's rate of inventory turnover?
- 3.4
 - 3.5
 - 6.4
 - 6.2
15. Beginning inventory is \$60,000, purchases are \$180,000 and sales total \$300,000. The normal gross profit is 30%. Using the gross profit method, how much is ending inventory?
- \$120,000
 - \$106,400
 - \$244,000
 - \$30,000
 - None of the above
16. An overstatement of ending inventory in one period results in:
- No effect on net income of the next period
 - An understatement of net income of the next period
 - An overstatement of net income of the next period
 - An understatement of the beginning inventory of the next period

Ch. 7 p.396 - 397

1. Garden, Inc. purchases a tract of land, a small office building, and some equipment for \$1,500,000. The appraised value of the land was \$850,000, the building \$675,000, and the equipment \$475,000. What is the cost of the land?
- \$481,667
 - \$850,000
 - \$637,500
 - \$732,000

2. Which statement is false?
- Depreciation creates a fund to replace the asset at the end of its useful life
 - The cost of a plant asset minus accumulated depreciation equals the asset's book value
 - Depreciation is a process of allocating the cost of a plant asset over its useful life
 - Depreciation is based on the matching principle because it matches the cost of the asset with the revenue generated over the asset's useful life

Use the following data for questions 3 - 6

On September 1, 2013, Grande Communications purchased a new piece of equipment that cost \$25,000. The estimated useful life is 5 years and estimated residual value is \$2,500.

3. What is depreciation expense on December 31, 2013 if Grande uses the straight-line method?
- \$1,875
 - \$1,500
 - \$2,083
 - \$4,500
4. Assume Grande purchased the equipment on January 1, 2013. If Grande use the straight-line method of depreciation, what is the asset's book value at the end of 2014.
- \$13,500
 - \$15,000
 - \$18,625
 - \$16,000
5. Assume Grande purchases equipment on January 1, 2013.if Grande uses the double declining balance method, what is the depreciation for 2014?
- \$5,400
 - \$6,000
 - \$8,333
 - \$15,000
6. Return to Grande's original purchase date of September 1, 2013. Assume that Grande uses straight-line method of depreciation and sells the equipment for \$11,500 on September 1, 2017. The result of the sale of the equipment is a gain or loss of:
- \$4,500 gain
 - \$13,500 gain
 - \$9,000 loss
 - \$0
7. A company bought a new machine for \$17,000 on January 1. The machine is expected to last 4 years and have a residual value of \$2,000. If the company uses the double-declining-balance method, accumulated depreciation at the end of year 2 will be:
- \$10,880
 - \$11,250
 - \$12,750
 - \$15,000
8. Which of the following is not a capital expenditure?
- The addition of a building wing
 - A complete overhaul of an air-conditioning system.
 - A tune-up of a company vehicle
 - Replacement on an old motor with a new one in a piece of equipment
 - The cost of installing a piece of equipment

9. Which of the following assets is not subject to a decreasing book value through depreciation, depletion, or amortization?
- Goodwill
 - Intangibles
 - Land improvements
 - Natural resources
10. Why would a business select an accelerated method of depreciation for tax purposes?
- MACRS depreciation follows a specific pattern of depreciation
 - Accelerated depreciation generates a greater amount of depreciation over the life of the asset than does straight-line depreciation
 - Accelerated depreciation is easier to calculate because salvage value is ignored
 - Accelerated depreciation generates higher depreciation expense immediately and therefore lower tax payments in the early years of the asset's life
11. A company purchased an oil well for \$200,000. It estimates that the well contains 50,000 barrels, has a 10-year life, and no salvage value. If the company extracts and sells 6,000 barrels of oil in the first year, how much depletion expense should be recorded?
- \$16,000
 - \$24,000
 - \$20,000
 - \$100,000
12. Which item among the following is not an intangible asset:
- Trademark
 - Copyright
 - Patent
 - Goodwill
 - All of the above are intangible assets