

## Accounting II

### True/False

*Indicate whether the sentence or statement is true or false.*

- \_\_\_ 1. A set of procedures for controlling cash payments by preparing and approving vouchers before payments are made is known as a voucher system.
- \_\_\_ 2. In a voucher system, vouchers needing to be paid are kept in a vouchers payable ledger.
- \_\_\_ 3. An inventory record lists the number of units on hand, the unit price of the item, and the item's total cost.
- \_\_\_ 4. The percentage of accounts receivable method estimates a percentage of accounts receivable that will not be collected and updates the balance of Allowance for Uncollectible Accounts so that it equals the estimated amount.
- \_\_\_ 5. When a customer's account is written off, its balance is reduced to zero.
- \_\_\_ 6. From experience, businesses know that the longer an account is outstanding, the less likely it is to be collected.
- \_\_\_ 7. Recording uncollectible accounts expense at the time the amount is actually known to be uncollectible is called the allowance method of recording losses from uncollectible accounts.
- \_\_\_ 8. The accounts receivable turnover ratio is a measure of collection efficiency.
- \_\_\_ 9. Regardless of the care taken in granting credit, some customers will not pay the amounts owed.
- \_\_\_ 10. To use the production-unit depreciation method for a vehicle, the estimated useful life must be stated in number of miles.
- \_\_\_ 11. Included in the original cost of a plant asset are all costs paid to make the asset usable including the purchase price, delivery costs, and any necessary installation costs.
- \_\_\_ 12. The Matching Expenses with Revenue concept is being applied when special accounting procedures are implemented so that the correct amount of revenue earned in the fiscal period is recognized in the financial statements.
- \_\_\_ 13. When a corporation earns a profit, it is required to distribute a portion of the earnings to the stockholders.
- \_\_\_ 14. A corporation maintains a separate record of its net income and its issued capital stock by recording net income in the capital account Retained Earnings.

- \_\_\_ 15. If a bond issue was for \$500,000.00, the amount to be deposited in the bond sinking fund equals \$500,000.00.
- \_\_\_ 16. A comparative income statement compares one year's actual results to another year's actual results. A performance report compares the budget amounts to the actual results.
- \_\_\_ 17. On a comparative income statement, if a cost or expense item increase is a higher percentage than the net sales increase, net income is favorably affected.
- \_\_\_ 18. On a graph showing the breakeven point, the net loss area always appears below and to the left of the breakeven point.
- \_\_\_ 19. Unit sales at breakeven may be calculated by dividing total fixed costs by the contribution margin per unit.
- \_\_\_ 20. If a company can reduce its fixed costs, the number of units that must be sold to break even will decline.
- \_\_\_ 21. The percentage relationship between one financial statement item and the total that includes that item is called a component percentage.
- \_\_\_ 22. The cash receipts and cash payments of a company are called cash flows.
- \_\_\_ 23. On a work sheet, Cost of Goods Sold is extended to the Income Statement Debit column.
- \_\_\_ 24. The balance sheet of a manufacturing business includes inventories for materials, cost of goods sold, and finished goods.
- \_\_\_ 25. The total of the materials ledger should equal the balance in the general ledger account Materials.
- \_\_\_ 26. The additional capital provided by a new partner adds financial strength to allow a business to grow.
- \_\_\_ 27. If the partnership agreement calls for salaries to the partners, then the salaries are considered expenses of the business, rather than a withdrawal of earnings.
- \_\_\_ 28. The net income component percentage may be higher for partnerships than for corporations since partnerships have fewer expenses.
- \_\_\_ 29. Salaries are often paid to partners who devote time to working for the partnership.
- \_\_\_ 30. A governmental accounting entity with a set of accounts in which assets always equal liabilities plus equities is called a fund.
- \_\_\_ 31. In modified accrual accounting, expenditures are recognized when the payment is made.

- \_\_\_ 32. Fund equity that is not reserved for a specific purpose represents resources that are available for appropriations and spending.
- \_\_\_ 33. A merchandise inventory determined by keeping a continuous record of increases, decreases, and balance on hand is a perpetual inventory.
- \_\_\_ 34. Net income increases the retained earnings of a corporation as shown on the statement of stockholders' equity.
- \_\_\_ 35. A list of customer accounts, account balances, and total amount due from all customers is an accounts receivable ledger.
- \_\_\_ 36. If employer payroll taxes are paid using the Electronic Federal Tax Payment System (EFTPS), the entry is recorded in the general journal.
- \_\_\_ 37. Total shares of ownership in a corporation are called capital stock.
- \_\_\_ 38. The Bank columns in the check register are not posted to any ledger.
- \_\_\_ 39. Treasury Stock may be sold for more than its cost.
- \_\_\_ 40. The adjusting entry to record depreciation on office equipment involves a debit to Depreciation Expense–Office Equipment and a credit to Accumulated Depreciation–Office Equipment.
- \_\_\_ 41. Dividends – both cash and stock – increase a corporation’s Retained Earnings account.
- \_\_\_ 42. The date of record is the date on which a board of directors votes to distribute a dividend.
- \_\_\_ 43. Intangible assets appear on the balance sheet.
- \_\_\_ 44. Issuing capital stock is a financing activity and a cash inflow.
- \_\_\_ 45. Depreciation expense is not a source or use of cash; therefore, it is subtracted from net income on the statement of cash flows.
- \_\_\_ 46. Payroll expenses are an operating expense and a use of cash.
- \_\_\_ 47. Applied overhead is the estimated amount of factory overhead recorded on cost sheets.
- \_\_\_ 48. To determine departmental margin, direct expenses are subtracted from gross profit.
- \_\_\_ 49. Legally, a partnership must be formed by a written agreement.
- \_\_\_ 50. The primary purpose of a not-for-profit organization is to earn a net profit.

## Multiple Choice

Identify the letter of the choice that best completes the statement or answers the question.

- \_\_\_ 51. Voucher 655 was issued to Myrick Company for \$1,100 for a purchase on account. The debit is to \_\_\_\_.
- a. Accounts Payable
  - b. Cash
  - c. Vouchers Payable
  - d. Purchases
- \_\_\_ 52. Every entry in a voucher register includes the date, \_\_\_\_.
- a. payee, and voucher number
  - b. account debited, and voucher number
  - c. account credited, and voucher number
  - d. payee, and check number
- \_\_\_ 53. The voucher register page number is recorded \_\_\_\_.
- a. in the general ledger
  - b. in the vouchers payable ledger
  - c. on the voucher
  - d. on the voucher check
- \_\_\_ 54. A file of stock records for all merchandise on hand is called a(n) \_\_\_\_.
- a. accounts payable ledger
  - b. stock ledger
  - c. merchandise ledger
  - d. inventory record
- \_\_\_ 55. The first step in recording the collection of an account that has been written off is to \_\_\_\_.
- a. reopen the account receivable
  - b. debit Collection of Uncollectible Accounts
  - c. record the cash received
  - d. reduce the amount of Allowance for Uncollectible Accounts
- \_\_\_ 56. Holt Co. has terms of 2/10, n/30. Its accounts receivable turnover ratio is 10.3. The average number of days for payment is (rounded to the nearest day) \_\_\_\_.
- a. 35 days
  - b. 36 days
  - c. 34 days
  - d. 30 days
- \_\_\_ 57. The adjusting entry to record the estimated uncollectible accounts expense using the percentage of sales method is \_\_\_\_.
- a. a debit to Uncollectible Accounts Expense and a credit to Allowance for Uncollectible Accounts
  - b. a debit to Allowance for Uncollectible Accounts and a credit to Uncollectible Accounts Expense
  - c. a debit to Uncollectible Accounts Expense and a credit to Accounts Receivable
  - d. a debit to Allowance for Uncollectible Accounts and a credit to Income Summary

- \_\_\_ 58. The amount that is due on the maturity date of a note is called the \_\_\_\_.
- a. amount due
  - b. interest
  - c. maturity value
  - d. principal
- \_\_\_ 59. The day a note is issued is called the \_\_\_\_.
- a. date of a note
  - b. interest date of a note
  - c. maturity date of a note
  - d. principal date of a note
- \_\_\_ 60. At the end of a fiscal period, a business must show how much rent received in advance has become \_\_\_\_.
- a. an expense
  - b. a revenue
  - c. an asset
  - d. a liability
- \_\_\_ 61. Recording an adjusting entry for accrued interest income is an application of the accounting concept \_\_\_\_.
- a. Objective Evidence
  - b. Historical Cost
  - c. Consistent Reporting
  - d. Matching Expenses with Revenue
- \_\_\_ 62. Assets of a nonphysical nature that have value for a business are \_\_\_\_.
- a. difficult to value
  - b. goodwill assets
  - c. intangible assets
  - d. long-term capital assets
- \_\_\_ 63. A person or business who handles the details of issuing and transferring stock certificates is known as a \_\_\_\_.
- a. bank agent
  - b. stock broker
  - c. stock trader
  - d. transfer agent
- \_\_\_ 64. The approved articles of incorporation are called the \_\_\_\_.
- a. authorization directive
  - b. charter
  - c. incorporation document
  - d. permission to begin operations
- \_\_\_ 65. Written evidence of the number of shares that each stockholder owns in a corporation is called a(n) \_\_\_\_.
- a. articles of ownership
  - b. charter
  - c. preferred stock offering
  - d. stock certificate

- \_\_\_ 66. A printed, long-term promise to pay a specified amount on a specified date and to pay interest at stated intervals is known as a(n) \_\_\_\_.
- a. bond
  - b. bond issue
  - c. indenture
  - d. stock
- \_\_\_ 67. When common stock is issued for more than its stated value, a debit is made to \_\_\_\_.
- a. Cash
  - b. Paid-in Capital in Excess of Par Value–Common
  - c. Paid-in Capital in Excess of Stated Value–Common
  - d. Common Stock
- \_\_\_ 68. The relationship between net income and average stockholders' equity is the \_\_\_\_.
- a. rate earned on average stockholders' equity
  - b. rate earned on average net income
  - c. rate earned on average total assets
  - d. price-earnings ratio
- \_\_\_ 69. Which budget schedule shows the quarterly estimates for Utilities Expense?
- a. administrative expenses
  - b. cash payments
  - c. other revenue and expenses
  - d. selling expenses
- \_\_\_ 70. A performance report shows a budget amount for cost of merchandise sold of \$336,000 and an actual amount of \$352,000. What is the percentage increase or decrease? (Percentages are rounded to the nearest 0.1%.)
- a. 4.5% decrease
  - b. 4.5% increase
  - c. 4.8% decrease
  - d. 4.8% increase
- \_\_\_ 71. If earnings per share increased from \$6.22 in the prior year to \$6.79 in the current year, stockholders know that \_\_\_\_.
- a. the number of shares outstanding increased
  - b. net income earned for each share increased
  - c. net sales increased
  - d. current assets increased
- \_\_\_ 72. Purchases of equipment are an \_\_\_\_.
- a. operating activity and cash inflow
  - b. operating activity and cash outflow
  - c. investing activity and cash inflow
  - d. investing activity and cash outflow

- \_\_\_ 73. After cash flows from operating, investing, and financing activities have been determined, the result is the \_\_\_\_.
- cash balance, end of period
  - cash balance, beginning of period
  - net increase (decrease) in cash
  - net increase (decrease) in activity
- \_\_\_ 74. Retirement of bond principal is a(n) \_\_\_\_.
- financing activity and cash inflow
  - financing activity and cash outflow
  - investing activity and cash inflow
  - investing activity and cash outflow
- \_\_\_ 75. The cost sheet for 90 units of inkjet printers shows \$7,200.00 for direct materials and \$4,200.00 for direct labor. Factory overhead is estimated at 70% of direct labor. The total cost of the job is \_\_\_\_.
- |                |                |
|----------------|----------------|
| a. \$11,400.00 | c. \$16,440.00 |
| b. \$14,340.00 | d. \$16,530.00 |
- \_\_\_ 76. On a manufacturing work sheet, the difference between the Income Statement columns and the Balance Sheet columns represents \_\_\_\_.
- |                               |                    |
|-------------------------------|--------------------|
| a. cost of goods sold         | c. net income      |
| b. cost of goods manufactured | d. work in process |
- After liquidating all noncash assets and all liabilities, the partnership has \$23,000.00 in cash. The loss and gain on realization has a credit balance of \$3,000.00. Watson, Capital has a balance of \$12,000.00. Holbrooke, Capital has a balance of \$8,000.00. The partnership agreement calls for net income and net losses to be divided 60% for Watson and 40% for Holbrooke.
- \_\_\_ 77. Refer to the Watson and Holbrooke Scenario. After the loss or gain on realization has been recorded, Watson's capital account has a balance of \_\_\_\_.
- |                |                |
|----------------|----------------|
| a. \$13,800.00 | c. \$10,800.00 |
| b. \$12,200.00 | d. \$10,200.00 |
- \_\_\_ 78. When money is spent for capital outlays, such as roads and bridges, the total amount spent is recorded as \_\_\_\_.
- an asset to be depreciated
  - an expenditure in the period the money is spent
  - an encumbrance during the useful life of the asset
  - an appropriation for future periods

- \_\_\_ 79. Which of the following is NOT an example of other revenue (revenue that is not measurable until it is received)?
- |                   |                           |
|-------------------|---------------------------|
| a. fines          | c. parking meter receipts |
| b. property taxes | d. penalties              |
- \_\_\_ 80. If an employer's annual federal unemployment tax liability is greater than \$100.00, the employer must make payments \_\_\_\_.
- |            |                        |
|------------|------------------------|
| a. weekly  | c. each payroll period |
| b. monthly | d. quarterly           |
- \_\_\_ 81. The total amount of earnings by all employees for a pay period is called \_\_\_\_.
- |                     |                             |
|---------------------|-----------------------------|
| a. Salaries Payable | c. maximum taxable earnings |
| b. a payroll        | d. Wages Expense            |

Mar. 18. Paid cash for biweekly payroll. Check No. 833.

Total payroll consists of computer systems, \$4,500.00; network systems, \$6,200.00; and administrative, \$3,600.00. Deductions are made as follows:

Employee income tax—federal \$2,450.00  
 Employee income tax—state 7.0% of payroll  
 Social security tax 6.5% of payroll  
 Medicare tax 1.5% of payroll  
 Health insurance \$780.00

- \_\_\_ 82. Refer to the March Transaction. This transaction would be recorded in the \_\_\_\_.
- |                          |                     |
|--------------------------|---------------------|
| a. cash payments journal | c. general journal  |
| b. cash receipts journal | d. payroll register |

Feb. 16. Received cash on account from Key Sports Co. covering Sales Invoice No. 822 for \$400.00 plus 5% sales tax, less Credit Memorandum No. 18 for \$60.00 plus sales tax, less a 2% discount, and less the applicable sales tax. Receipt No. 33.

- \_\_\_ 83. Refer to the Key Sports. Co. Transaction. The amount received from Key Sports Co. is \_\_\_\_.
- |             |             |
|-------------|-------------|
| a. \$349.86 | c. \$357.00 |
| b. \$350.20 | d. \$364.14 |
- \_\_\_ 84. If the title to the goods passes from the vendor to the buyer at the time the goods are received at the buyer's place of business, the shipping terms are \_\_\_\_.
- |                       |                    |
|-----------------------|--------------------|
| a. FOB shipping point | c. FOB destination |
| b. FOB delivery       | d. consigned       |

- \_\_\_ 85. Businesses that uses a periodic or a perpetual inventory usually take a periodic inventory once each \_\_\_\_.
- a. week
  - b. month
  - c. quarter
  - d. year

The following information for Romanoff, Inc., is available on December 31 of the current year.

Cost Retail

Beginning merchandise inventory \$42,400.00 \$70,000.00

Net purchases to date 136,000.00 227,400.00

Net sales to date 207,400.00

Gross profit percentage 40%

- \_\_\_ 86. Refer to the Anderson Inc. Scenario. What is the average merchandise inventory for the current year?
- a. \$314,365.00
  - b. \$341,365.00
  - c. \$341,635.00
  - d. \$342,000.00
- \_\_\_ 87. If prepaid insurance is initially recorded as an expense and the appropriate adjusting and closing entries are made, the reversing entry will consist of a \_\_\_\_.
- a. debit to Prepaid Insurance and a credit to Insurance Expense
  - b. debit to Insurance Expense and a credit to Prepaid Insurance
  - c. debit to Insurance Expense and a credit to Income Summary
  - d. debit to Income Summary and a credit to Insurance Expense
- \_\_\_ 88. When an account that has been written off using the direct write-off method is collected, the revenue account used is \_\_\_\_.
- a. Allowance of Uncollectible Accounts
  - b. Collection of Uncollectible Accounts
  - c. Resales
  - d. Uncollectible Accounts Revenue
- \_\_\_ 89. If the principal of a 90-day note is \$5,000.00 and the interest due at maturity is \$125.00, the interest rate on the note is \_\_\_\_.
- a. 9.0%
  - b. 9.5%
  - c. 10.0%
  - d. 12.0%
- \_\_\_ 90. Net sales for the year are \$400,000.00 and 50% of the sales were made on account. The average book value of accounts receivable is \$20,000.00. The accounts receivable turnover ratio is \_\_\_\_.
- a. 5 times
  - b. 10 times
  - c. 12 times
  - d. 20 times

- \_\_\_ 91. When treasury stock is purchased, \_\_\_\_.
- a. Capital Stock is debited and Treasury Stock is credited
  - b. Treasury Stock is debited and Cash is credited
  - c. Cash is debited and Treasury Stock is credited
  - d. Treasury Stock is debited and Capital Stock is credited
- \_\_\_ 92. The share of net income assigned to common stock divided by the number of shares of common stock outstanding is known as the \_\_\_\_.
- a. equity per share
  - b. dividend rate
  - c. earnings per share
  - d. price-earnings ratio

On May 1, Alliance, Inc., purchases 5,000 shares of its own stock to be held as treasury stock. The stock has a stated value of \$10.00 per share, and the stock is purchased for \$12.00 per share. On July 1, 1,000 shares of the treasury stock are sold to Frank Abbott at \$16.00 per share. On August 10, 1,000 shares of the treasury stock are sold to David Merrill for \$11.00 per share.

- \_\_\_ 93. Refer to the Alliance Inc. Scenario. The balance of Treasury Stock after the August 10 transaction has been recorded is \_\_\_\_.
- a. \$20,000.00
  - b. \$24,000.00
  - c. \$30,000.00
  - d. \$36,000.00
- \_\_\_ 94. Which of the following does not require an entry on the company's books?
- a. sales of preferred stock
  - b. sales of common stock
  - c. sales of stock by one investor to another investor
  - d. declaration of dividends
- \_\_\_ 95. A performance report shows a budget amount for net sales of \$800,000.00 and an actual amount of \$840,000.00. What is the percentage increase or decrease? (Round percentages to the nearest 0.1%.)
- a. 5.0% increase
  - b. 5.0% decrease
  - c. 4.8% increase
  - d. 4.8% decrease
- \_\_\_ 96. Which accounting concept is applied when it is stated that the earnings of a business must be satisfactory to continue operations.
- a. Adequate Disclosure
  - b. Consistent Reporting
  - c. Going Concern
  - d. Materiality

- \_\_\_\_ 97. A product currently sells for \$10.00 and has variable costs of \$6.00 per unit. Fixed costs total \$20,000.00. If the selling price is raised to \$11.00 and fixed and variable costs do not change, how many units must be sold to break even?
- a. 4,000 units
  - b. 5,000 units
  - c. 4,500 units
  - d. 5,500 units
- \_\_\_\_ 98. If the departmental margins are 30% of net sales, the company's net income for the fiscal period will normally be \_\_\_\_.
- a. 30% of net sales
  - b. more than 30% of net sales
  - c. less than 30% of net sales
  - d. greater than the cost of merchandise sold
- \_\_\_\_ 99. Responsibility accounting traces revenues, costs, and expenses to \_\_\_\_.
- a. the accounting department
  - b. each employee
  - c. the income statement
  - d. individual managers who are responsible for making decisions about those revenues, costs, and expenses
- \_\_\_\_ 100. The entry to record Partner A's share of a deficit is a debit to Partner A, Capital and a credit to \_\_\_\_.
- a. Partner A, Drawing
  - b. Cash
  - c. Income Summary
  - d. Loss and Gain on Realization