

KRUG PRACTICE TEST

ACCTG 1 - CHAP 8,9 and first part of 10

PRACTICE TEST -- The following is a practice test for Accounting 1, Chapters 8, 9 and 10a. It is only a representation of what the test could be like. It is not a guarantee in any way that ONLY these types of questions will be asked, on the number of questions, nor on the breakdown between multiple choice and problems.

- 1 Which of the following is a purpose of an internal control system?
 - A) To promote efficient operations
 - B) To urge adherence to company policies
 - C) To protect assets.
 - D) To ensure reliable accounting
 - E) All of the above

- 2 At the end of the day, the clerk (who works at the cash register): (1) counts the money in the cash drawer, (2) records the amount of the count, (3) forwards a record of the count and the cash to the company cashier. This procedure does which of the following?
 - A) Adheres to internal control principles
 - B) Provides adequate internal control over cash
 - C) Separates recordkeeping and the custody of assets
 - D) Follows the broad principle of internal control of insuring assets
 - E) All of the above

- 3 Management's ability to monitor and control business operations is greatly improved with a computerized accounting system because of all but which one of the following?
 - A) Computers provide more rapid access to information
 - B) Computers allow data to be presented in many different reports and formats
 - C) Computers provide access to large quantities of information
 - D) Data entry errors are always discovered in the early stages
 - E) None of the above

- 4 Which of the following would require the Petty Cash account to be debited?
 - A) The petty cash account is being increased
 - B) The petty cash account is being decreased
 - C) The petty cash fund is short by \$3.50
 - D) The petty cash fund is over by \$4.50
 - E) None of the above

- 5 To decrease the petty cash fund for a department requires a journal entry that will do which of the following?
 - A) Debit Cash and credit Petty Cash
 - B) Debit Petty Cash and credit Cash
 - C) Debit Miscellaneous Expense and credit Cash
 - D) Debit Accounts Receivable and credit Petty Cash
 - E) Debit Accounts Payable and credit Petty Cash

- 6 The bookkeeper recorded a bank deposit at \$960, but the bank recorded the deposit at its correct amount of \$690. How will this error be treated on the bank reconciliation?
- A) Addition per bank statement balance
 - B) Deduction per book balance of cash
 - C) Addition per book balance of cash
 - D) Deduction per bank statement balance
 - E) None of the above
- 7 The bookkeeper recorded a check at \$710.21 for store supplies. The bank recorded the check at its correct amount of \$170.21. How will this error be treated on the bank reconciliation?
- A) Deduction per bank statement balance
 - B) Addition per bank statement balance
 - C) Deduction per book balance of cash
 - D) Addition per book balance of cash
 - E) None of the above
- 8 The bookkeeper recorded a bank deposit at \$960, but the bank recorded the deposit at its correct amount of \$690. What entry is required to the Cash account to correct this error?
- A) No entry is required to correct the cash account
 - B) A credit to cash for \$270
 - C) A credit to cash for \$330
 - D) A debit to cash for \$270
 - E) A debit to cash for \$330
- 9 The bookkeeper recorded a check at \$710.21 for store supplies. The bank recorded the check at its correct amount of \$170.21. How will this error be treated on the bank reconciliation?
- A) No entry is required to correct the cash account
 - B) A credit to cash for \$660
 - C) A credit to cash for \$540
 - D) A debit to cash for \$660
 - E) A debit to cash for \$540
- 10 What is the journal entry for a customer's NSF check that is returned with the bank statement?
- A) Debit Accounts Receivable and credit Cash
 - B) Debit Revenue and credit Cash
 - C) Debit NSF Expense and credit Cash
 - D) Debit Cash and credit Accounts Receivable
 - E) None of the above

- 11 A company made a credit sale to a customer who used a credit card of a credit card company to make the purchase. The journal entry to record the sale is which of the following?
- A) A debit to Cash and a credit to Sales
 - B) A debit to Cash and a credit to Credit Card Expense
 - C) A debit to Credit Card Expense and a credit to Accounts Receivable
 - D) A debit to Accounts Receivable-Credit Card Company and a credit to Sales
 - E) A debit to Cash and a credit to Accounts Receivable
- 12 A retailer made a \$300 sale to a customer. The customer used a VISA credit card. The net cash receipts are deposited immediately into the seller's bank account. VISA charges a 3% handling fee. The journal entry by the retailer to record this sale would include which of the following?
- A) A credit to Accounts Receivable-Credit Card Company for \$300
 - B) A credit to Credit Card Expense for \$9
 - C) A debit to Cash for \$291
 - D) A debit to cash for \$300
 - E) A, B and C
- 13 What is the effect on the elements of the accounting equation when a company receives payment from a customer for an account receivable?
- A) Assets are increased and liabilities are increased.
 - B) Assets are both increased and decreased and total assets remains the same overall
 - C) Assets are decreased and equity is decreased
 - D) Assets are increase and equity is increased
 - E) Liabilities are increased and equity is decreased
- 14 The direct write-off method of accounting for bad debts is not as theoretically sound as the allowance method, yet some firms still use it. What accounting principle or concept provides the rationale for the use of the direct write-off method of accounting for bad debts?
- A) Matching principle
 - B) Full-disclosure principle
 - C) Discounting principle
 - D) Materiality principle
 - E) Business entity concept
- 15 If a firm uses the allowance method, which of the following is true regarding the effects *when they write off a specific accounts receivable account?*
- A) The realizable value (i.e. book value) of accounts receivable will not change
 - B) Net income will decrease and expenses will increase
 - C) The cash account will decrease
 - D) Total net current assets will decrease
 - E) The realizable value (i.e book value) of accounts receivable decreases

- 16 When a firm collects (recovers) an account receivable that was previously written off under the allowance method of accounting for bad debts, which of the following journal entries will be made?
- A) Debit Accounts Receivable, credit Bad Debt Expense; debit Cash, credit Accounts Receivable
 - B) Debit Allowance for Doubtful Accounts, credit Accounts Receivable; debit Cash, credit Accounts Receivable
 - C) Debit Accounts Receivable, credit Allowance for Doubtful Accounts; debit Accounts Receivable, credit Cash
 - D) Debit Accounts Receivable, credit Allowance for Doubtful Accounts; debit Cash, credit Accounts Receivable
 - E) Debit Accounts Receivable, credit Allowance for Doubtful Accounts; debit Cash, credit Bad Debt Expense
- 17 The Allowance for Doubtful Accounts account has a year-end credit balance, prior to adjustment of \$1,500. The bad debts are estimated at 6% of outstanding accounts receivable of \$180,000. What is the amount of the credit in the journal entry that needs to be made to adjust the Allowance for Doubtful Accounts?
- A) \$ 9,300
 - B) \$10,800
 - C) \$12,300
 - D) \$13,600
 - E) None of the above
- 18 The interest on a \$12,800, 6%, 150-day note is closest to which amount?
- A) \$3,200.00
 - B) \$32.00
 - C) \$13,120.00
 - D) \$320.00
- 19 Greco Inc. has a debit balance in its Allowance account of \$530 before the adjustment for bad debts. The ending accounts receivable equal \$49,000 and Greco estimates that 10% of these accounts receivable will be uncollectible. Which of the following is false?
- A) The amount of the adjusting entry will be more than the balance in the Allowance for Doubtful Accounts account after adjustment.
 - B) The ending Balance in the Allowance for Doubtful Accounts account will be \$4,900
 - C) The existing balance in the Allowance for Doubtful account will be used in determining the amount for the adjusting entry
 - D) Allowance for Doubtful Accounts will be credited for \$5,430
 - E) The ending Balance in the Allowance for Doubtful Accounts account will be \$5,430

- 20 Credit sales for Sparrow Inc. during the year were \$505,000. Management of Sparrow estimates that uncollectible accounts are 2% of credit sales. The balance in the Allowance for Doubtful Accounts account before the adjustment for bad debts is a debit of \$860. Which of the following is true?
- A) The ending balance in the Allowance for Doubtful Accounts account will be \$10,100
 - B) The ending balance in the Allowance for Doubtful Accounts account will be \$10,960
 - C) The ending balance in the Allowance for Doubtful Accounts account will be used to determine the amount of the adjusting entry
 - D) The amount of the adjusting entry will be \$10,100.
 - E) None of the above
- 21 Plant assets have two important features that distinguish them from other types of assets. What are they?
- A) They have long lives and have physical substance
 - B) They are used in operations and have a useful life of more than one accounting period
 - C) They have long lives and are expensive
 - D) They are tangible and have a market value
 - E) They are used in operations and have physical substance
- 22 An asset having a four-year service life and a salvage value of \$15,000 was acquired for \$135,000 cash on January 2 of Year One. What will be the depreciation expense for Year 2, ending December 31?
- A) \$33,750, under the declining-balance method
 - B) \$15,000, under the straight-line method
 - C) \$33,750, under the straight-line method
 - D) \$67,500, under the declining-balance method
 - E) None of the above
- 23 Dilby forgot to record depreciation for the year. What will be the effect on the financial statements of Dilby's omission?
- A) An understatement of income and an understatement of capital
 - B) An overstatement of income and an understatement of capital
 - C) An overstatement of income and an understatement of assets
 - D) An overstatement of income and an overstatement of assets
 - E) An understatement of income and an overstatement of capital

Problem #1

The following information is available to reconcile Wild Willy's Whitewash Co. book balance of cash with its bank statement cash balance as of July 31, 2005:

- a. After all posting is complete on July 31, the company's Cash account has a \$13,805 debit balance, but its bank statement shows a \$14,350 balance.
- b. Checks outstanding total \$4,180.
- c. In comparing the canceled checks returned by the bank with the entries in the accounting records, it is found that Check No. 2222 for July phone bill was correctly written and drawn for \$720 but was erroneously entered in the accounting records as \$270.
- d. The bank charged Wild Willy's \$40 for a safe-deposit box. Wild Willy's does not have a safe-deposit box.
- e. A debit memorandum for \$125 lists a \$100 NSF check plus a \$25 NSF charge. The check had been received from the Public Trust bank. Wild Willy has not yet recorded this check as NSF.
- f. Enclosed with the statement is a \$20 debit memorandum for bank services. It has not yet been recorded because no previous notification had been received.
- g. The July 31 daily cash receipts of \$3,000 were placed in the bank's night depository on that date but do not appear on the July 31 bank statement.

Required

1. Prepare a bank reconciliation for this company as of July 31, 2005.
2. Prepare the journal entries necessary to bring the company's book balance of cash into conformity with the reconciled cash balance as of July 31, 2005.

1. Prepare a bank reconciliation for this company as of July 31, 2005.
2. Prepare the journal entries necessary to bring the company's book balance of cash into conformity with the reconciled cash balance as of July 31, 2005.

Problem #2

On September 1, ABC Company set up a petty cash fund for \$300. On September 30, they opened the petty cash lock box and found the following receipts: \$140 for stamps, \$36.20 for food for the company refrigerator, \$27.49 for a delivery of inventory that was made, and \$58.97 for office supplies expense. There was also remaining petty cash in the lockbox of \$29.

REQUIRED: Please make the journal entry on Sept 1 to set up the petty cash fund and also the journal entry for September 30 to reimburse the fund.

Problem #3

Accounting major Earl Washington has an on-campus business assembling and delivering "care packages" to freshmen students. Earl accepts cash and two major credit cards: Big Bank and Plastic Fantastic, from parents who order the packages. Big Bank deducts a 5% service charge on all sales, and deposits the money into the checking accounts of its customers as soon as the credit card receipts are received. Earl deposits Big Bank receipts daily. Plastic Fantastic deducts a 3% service charge on all sales. They usually take about 10 days to pay once the credit card receipts are received. Earl deposits Plastic Fantastic receipts weekly. The following transactions were completed during September.

- 1-Sep Made \$670 (that had cost \$450) of sales to parents who used the Big Bank card.
- 2-Sep Cash sales for the day amounted to \$256 (that had cost \$175).
- 5-Sep Made \$1290 (that had cost \$850) of sales to parents who use the Plastic Fantastic card.
- 6-Sep Made another \$2050 (that had cost \$1425) of sales to parents who used the Plast Fant card.
- 7-Sep Submitted Plastic Fantastic card receipts to the credit card company for payment.
- 10-Sep Made \$1440 (that had cost \$1020) of sales to parents who use the Big Bank card.
- 17-Sep Received the amount due from Plastic Fantastic.

Required: Prepare journal entries to record the preceding transaction and events (company uses the perpetual inventory system).

Problem #4

On December 31, 2005, DotGone's records show the following results for the year:

| | |
|--------------|-----------|
| Cash Sales | 2,362,000 |
| Credit Sales | 4,024,000 |

In addition, its unadjusted trial balance includes the following items:

| | |
|---------------------------------|---------------|
| Accounts Receivable | 692,300 debit |
| Allowance for Doubtful Accounts | 29,030 credit |

Required:

- 1 Prepare the adjusting entry for DotGone to recognize bad debts under each of the following independent assumptions:
 - a. Bad debts are estimated to be 3% of credit sales.
 - b. Bad debts are estimated to be 1% of total sales.
 - c. An aging analysis suggests 8% of accounts receivable at year-end are uncollectible.
- 2 Show how Accounts Receivable and the Allowance for Doubtful Accounts appear on the 12/31/05 balance sheet given the FACT IN PART **(1a)**.

Problem #5

Specialized equipment costing \$470,000 with a five-year life and an estimated \$45,000 salvage value is installed in OTW Company's factory on January 1. The factory manager estimates the machine will produce 85,000 units of product during its life. It actually produces the following units: year 1, 20,000; year 2, 15,000; year 3, 35,000; and year 4, 10 (equipment was broken and replacement part did not arrive until year-end); year 5, 22,000. The total number of units produced by the end of year 5 exceeds the original estimate - this difference was not predicted. (The machine must not be depreciated below its estimated salvage value.)

Required

Prepare a table with the following column headings and compute depreciation for each year (and total depreciation of all years combined) for machine under each depreciation method.

| <u>Year</u> | <u>Straight-Line</u> | <u>Units-of-Production</u> | <u>Double-Declin Bal</u> |
|-------------|----------------------|----------------------------|--------------------------|
|-------------|----------------------|----------------------------|--------------------------|