

Grand Valley State University

ACC 511: Practice Exam

1. The date of the income statement
 - a. covers a period of time.
 - b. covers one day in time.
 - c. is not dated.
 - d. may cover a period of time or only one day in time.
2. Purchasing supplies for cash would
 - a. increase total assets.
 - b. decrease total assets.
 - c. increase total liabilities and stockholders' equity.
 - d. have no effect on total assets
3. GAAP requires businesses to use
 - a. either the cash basis or the accrual basis of accounting.
 - b. the cash basis of accounting.
 - c. the accrual basis of accounting.
 - d. the deferred basis of accounting.
4. A company has a discount policy which states that, if a customer pays within ten days of the sale, the customer can take a 2% discount; otherwise, the full amount is due in 30 days from the date of the sale. Which of the following abbreviated discount formulas reflects this policy?
 - a. 10/2, 30/n
 - b. 2/30, 10/n
 - c. 2/10, n/30
 - d. 2/n, 10/30
5. Which of the following is not an acceptable cost method for valuation of year-end inventory?
 - a. just-in, last-out
 - b. first-in, first-out
 - c. last-in, first-out
 - d. specific unit cost
6. If the bank mistakenly recorded a \$230 disbursement as \$320, the error would be shown on the bank reconciliation statement as
 - a. \$90 deduction from the book balance.
 - b. \$90 deduction from the bank balance.
 - c. \$90 addition to the book balance.
 - d. \$90 addition to the bank balance.
7. A perpetual inventory system offers all the following advantages except:
 - a. inventory balances are always current
 - b. it is less expensive than a periodic system
 - c. it enhances internal control
 - d. it helps salespeople determine whether there is a sufficient supply of inventory on hand to fill customer orders

8. Using the aging of accounts receivable method, you estimate that total uncollectible accounts is \$4,100. The allowance for uncollectible accounts prior to adjustment has a credit balance of \$2,000. The amount of the adjusting entry should be
- \$2,000.
 - \$2,100.
 - \$6,100.
 - \$4,100.

9. Given the following data, what is the gross profit as determined under the LIFO method?

Sales revenue	200 units at \$15 per unit
Beginning inventory	80 units at \$10 per unit
Purchases	160 units at \$11 per unit
a. \$1,760	
b. \$880	
c. \$840	
d. \$800	

10. Data for Duane's Golf Shop for the year-ended December 31, 2003 are as follows:

Sales revenue	\$130,000
Cost of goods sold	90,000
Beginning inventory	35,000
Ending inventory	50,000

- Inventory turnover for 2003 is
- 2.12
 - 2.57
 - 1.80
 - 3.06

11. Sumner Corporation's net income before depreciation and taxes is \$200,000. Using straight-line depreciation, the current year's depreciation expense would be \$20,000. Using double-declining-balance depreciation, the current year's depreciation expense would be \$22,000. Assuming a tax rate of 40%, what is Sumner Corporation's net income if the straight-line depreciation method is used?
- \$71,200
 - \$72,000
 - \$106,800
 - \$108,000

12. Equipment acquired on January 1, 2001 is sold on June 30, 2004, for \$4,500. The equipment cost \$10,000, had an estimated residual value of \$1,000, and an estimated useful life of 5 years. The equipment has been depreciated using the straight-line method. The journal entry to record the sale of the equipment involves a:
- credit to accumulated depreciation for \$6,300
 - credit to gain on sale of asset for \$800
 - debit to accumulated depreciation for \$7,000
 - credit to equipment for \$3,000

13. On December 16, 2001, Bruder Corporation purchases \$20,000 of equipment by issuing a 30-day, 10% note payable. The amount of accrued interest on December 31, 2001, is (rounded to nearest dollar):
- \$83
 - \$167
 - \$1,000
 - \$2,000
14. A \$10,000 bond quoted at 102 is selling for:
- \$9,800
 - \$9,897
 - \$10,200
 - \$12,000
15. When 1,000 shares of \$2 par value common stock are sold at \$3 per share, paid-in capital in excess of par valueÄÄcommon will:
- not be affected
 - increase \$1,000
 - increase \$2,000
 - increase \$3,000
16. Apple Company owns 30% of Berry Company. Net income for Berry Company for the year ending December 31, 2001, is \$400,000. The journal entry prepared by Apple Company on December 31, 2001, includes a:
- debit to cash for \$120,000
 - debit to long-term investment for \$120,000
 - debit to long-term investment for \$400,000
 - credit to long-term investment for \$120,000
17. If a parent company and its subsidiary have accounts receivable from external sources in the amounts of \$35,000 and \$25,000, respectively, the consolidated balance sheet for the parent and its subsidiary will show:
- both amounts, but it will list them in two separate accounts
 - only the parent's accounts receivable balance
 - net accounts receivable of \$10,000
 - one accounts receivable balance of \$60,000
18. Pete's Tractor, Inc., a US company, sold merchandise on account to DJ's Implement Corporation, a British company, for 500,000 British pounds. The relevant exchange rates for the British pound were as follows:

Date of sale	\$1.48
Date of cash receipt	\$1.49

The exchange rate gain or loss for Pete's Tractor on this transaction was:

- \$5,000 loss
- \$10,000 gain
- \$10,000 loss
- \$5,000 gain

19. A pension plan is said to be *overfunded* when:
- the accumulated benefit obligation exceeds the fair market value of the pension plan assets
 - the fair market value of the pension plan assets exceeds the accumulated benefit obligation
 - the accumulated benefit obligation exceeds the historical cost of the pension plan assets
 - the historical cost of the pension plan assets exceeds the accumulated benefit obligation
20. Quartermaster Corporation sold some of its used equipment for \$65,000. The indirect method statement of cash flows shows an addition to net income of \$10,000. The accumulated depreciation on the equipment to date of sale was \$63,000. The original cost of the equipment was:
- \$73,000
 - \$75,000
 - \$126,000
 - \$138,000
21. On January 1, 2001, total assets for Lansing Company were \$125,000; on December 31, 2001, total assets were \$175,000. On January 1, 2001, total liabilities were \$110,000; on December 31, 2001, total liabilities were \$115,000. What is the amount of the change and the direction of the change in Lansing Company's stockholders' equity for 2001?
- increase of \$10,000
 - decrease of \$10,000
 - increase of \$45,000
 - decrease of \$45,000
22. Proceeds from the issuance of stock appear in which, if any, section of the statement of cash flows?
- financing activities section
 - investing activities section
 - operating activities section
 - proceeds from the issuance of stock do not appear in the statement of cash flows
23. The purchase of land by the issuance of common stock would be reported on a statement of cash flows under the:
- investing activities
 - financing activities
 - operating activities
 - in the schedule of noncash investing and financing activities
24. When a company purchases inventory on account (on credit), which type of account is credited?
- asset
 - expense
 - owners' equity
 - liability

25. A credit increases the balance of
- revenue and assets.
 - liabilities and assets.
 - stockholders' equity and liabilities.
 - liabilities and expenses.
26. Trapathi Company accepted an eighteen-month, \$15,000, 8% note from Swenson Corporation on August 1, 2002. The amount of interest to be accrued on December 31, 2002 is
- \$333.
 - \$500.
 - \$1,200.
 - \$1,600.
27. A company has \$50,000 in cash, \$85,000 in short-term investments, \$120,000 in net current receivables, and \$145,000 in inventory. The total current liabilities of the firm are \$300,000. The acid-test ratio of the company is:
- 1.76
 - 1.33
 - 0.85
 - 0.64
28. Adjusting journal entries do not affect
- cash.
 - revenues.
 - expenses.
 - liabilities.
29. If a bank reconciliation included deposits in transit amounting to \$1,500, the journal entry to record this reconciling item would include a
- debit to cash for \$1,500.
 - credit to accounts receivable for \$1,500.
 - credit to cash for \$1,500.
 - no entry is required.
30. Given the following data, what is the cost of goods sold?
- | | |
|---------------------|-------------|
| Sales revenue | \$1,980,000 |
| Beginning inventory | 380,000 |
| Ending inventory | 340,000 |
| Purchases | 1,300,000 |
- \$820,000
 - \$1,260,000
 - \$1,340,000
 - \$1,640,000
31. Agosto Corporation purchased land and a building for \$780,000. An appraisal indicates that the land's value is \$400,000 and the building's value is \$350,000. The amount that Agosto should debit to the building account is:
- \$350,000
 - \$364,000
 - \$380,000
 - \$780,000

32. When an account is written off using the direct write-off method, total assets will:
- increase
 - decrease
 - remain the same
 - cannot be determined
33. If a company uses LIFO and prices are rising, large purchases of inventory near the end of the year will:
- reduce the gross profit
 - reduce cost of goods sold
 - increase income taxes paid
 - have no effect on the amount of cost of goods sold
34. The cash proceeds received from issuing a bond are less than the face value of the bond. It is apparent that the bond was issued at:
- par value
 - face value
 - a premium
 - a discount
35. Treasury stock is subtracted from:
- total assets
 - total stockholders' equity
 - paid-in capital and retained earnings
 - total liabilities
36. Which of the following activities create revenues and expenses in a company's major line of business?
- financing activities
 - investing activities
 - operating activities
 - warehousing activities
37. On an indirect method statement of cash flows, dividends paid during the year are:
- added to net income
 - deducted from net income
 - reflected in the investing activities section
 - reflected in the financing activities section
38. Managerial accounting:
- is more future oriented than financial accounting.
 - tends to summarize information more than financial accounting
 - is primarily concerned with providing information to external users.
 - is more concerned with precision than timeliness.

39. The delegation of decision making to lower levels in an organization is known as:
- A) the planning and control cycle.
 - B) controlling.
 - C) decentralization.
 - D) none of these.
40. Large work in process inventories:
- A) are essential for efficient operations.
 - B) reduce defect rates.
 - C) increase throughput time.
 - D) are a key part of Just-In-Time systems.
41. Indirect labor is a part of:
- A) Prime cost.
 - B) Conversion cost.
 - C) Period cost.
 - D) Nonmanufacturing cost.
42. Fixed costs expressed on a per unit basis:
- A) will increase with increases in activity.
 - B) will decrease with increases in activity.
 - C) are not affected by activity.
 - D) should be ignored in making decisions since they cannot change.
43. Aable Company's manufacturing overhead is 20% of its total conversion costs. If direct labor is \$45,000 and if direct materials are \$53,000, the manufacturing overhead is:
- A) \$11,250
 - B) \$13,250
 - C) \$180,000
 - D) \$24,500
44. Haag Inc. is a merchandising company. Last month the company's cost of goods sold was \$86,000. The company's beginning merchandise inventory was \$20,000 and its ending merchandise inventory was \$21,000. What was the total amount of the company's merchandise purchases for the month?
- A) \$86,000
 - B) \$127,000
 - C) \$87,000
 - D) \$85,000

45. When manufacturing overhead is applied to production, it is added to:
 A) the Cost of Goods Sold account.
 B) the Raw Materials account.
 C) the Work in Process account.
 D) the Finished Goods inventory account.
46. Crich Corporation uses direct labor-hours in its predetermined overhead rate. At the beginning of the year, the estimated direct labor-hours were 21,800 hours and the total estimated manufacturing overhead was \$497,040. At the end of the year, actual direct labor-hours for the year were 21,500 hours and the actual manufacturing overhead for the year was \$492,040. Overhead at the end of the year was:
 A) \$6,840 overapplied
 B) \$6,840 underapplied
 C) \$1,840 underapplied
 D) \$1,840 overapplied
47. Given the cost formula $Y = \$12,500 + \$5.00X$, total cost for an activity level of 4,000 units would be:
 A) \$20,000
 B) \$12,500
 C) \$16,000
 D) \$32,500
48. The following data relate to two levels of activity at an out-patient clinic in a hospital:
- | | | |
|-------------------------------|-----------|-----------|
| Number of patient-visits..... | 4,500 | 5,750 |
| General overhead | \$269,750 | \$289,125 |
- The best estimate of the variable general overhead cost per patient-visit is closest to:
 A) \$15.50
 B) \$44.44
 C) \$59.94
 D) \$50.28
49. A product sells for \$10 per unit and has variable expenses of \$6 per unit. Fixed expenses total \$45,000 per month. How many units of the product must be sold each month to yield a monthly profit of \$15,000?
 A) 6,000 units
 B) 3,750 units
 C) 15,000 units
 D) 10,000 units
50. Alpha Company reported the following data for its most recent year: sales, \$500,000; variable expenses, \$300,000; and fixed expenses, \$150,000. The company's degree of operating leverage is:
 A) 10
 B) 2
 C) 4
 D) 2.5

51. Production order processing is an example of a:
- A) Unit-level activity.
 - B) Batch-level activity.
 - C) Product-level activity.
 - D) Organization-sustaining activity.
52. Thirty percent of Sharp Company's sales are for cash and 70% are on account. Sixty percent of the account sales are collected in the month of sale, 25% in the month following sale, and 12% in the second month following sale. The remainder is uncollectible. The following are budgeted sales data for the company:

	<i>January</i>	<i>February</i>	<i>March</i>	<i>April</i>
Total sales	\$50,000	\$60,000	\$40,000	\$30,000

Total cash receipts in April are expected to be:

- A) \$24,640
 - B) \$35,200
 - C) \$31,560
 - D) \$33,640
53. Villi Manufacturing Corporation's most recent sales budget indicates the following expected sales (in units):

	<i>July</i>	<i>August</i>	<i>September</i>
Expected unit sales.....	230,000	275,000	310,000

Villi wants to maintain a finished goods inventory of 20% of the next month's expected sales. How many units should Villi plan on producing for the month of August?

- A) 268,000 units
 - B) 282,000 units
 - C) 291,000 units
 - D) 337,000 units
54. Sparks Company has a cash balance of \$7,500 on April 1. The company must maintain a minimum cash balance of \$6,000. During April, cash receipts of \$48,000 are planned. Cash disbursements during the month are expected to total \$52,000. Ignoring interest payments, during April the company will need to borrow:
- A) \$3,500
 - B) \$2,500
 - C) \$6,000
 - D) \$4,000

Use the following to answer questions 55-56:

Marty's Merchandise has budgeted sales as follows for the second quarter of the year:

April	\$30,000
May	\$60,000
June	\$50,000

Cost of goods sold is equal to 70% of sales. The company wants to maintain a monthly ending inventory equal to 120% of the cost of goods sold for the following month. The inventory on March 31 was below this target and was only \$22,000. The company is now preparing a Merchandise Purchases Budget for April, May, and June.

55. The desired beginning inventory for June is:
- A) \$42,000
 - B) \$35,000
 - C) \$50,000
 - D) \$38,000
56. The budgeted purchases for May are:
- A) \$49,400
 - B) \$50,400
 - C) \$60,000
 - D) \$33,600
57. When the actual price paid on credit for a raw material exceeds its standard price, the journal entry would include:
- A) Debit to Raw Materials; Credit to Materials Price Variance
 - B) Debit to Accounts Payable; Credit to Materials Price Variance
 - C) Debit to Raw Materials; Debit to Materials Price Variance
 - D) Debit to Accounts Payable; Debit to Materials Price Variance

58. A labor efficiency debit balance indicates that:
- A) The wage rate paid to production workers was less the standard.
 - B) The wage rate paid to production workers was above the standard.
 - C) Less labor time was spent on production than was called for by the standard.
 - D) More labor time was spent on production than was called for by the standard.
59. A static budget is:
- A) a budget for a single level of activity.
 - B) a budget that ignores inflation.
 - C) used only for fixed costs.
 - D) used when the mix of products does not change.
60. If the price a company paid for overhead items, such as utilities, decreased during the year, the company would probably report a(n):
- A) favorable efficiency variance.
 - B) favorable spending variance.
 - C) unfavorable efficiency variance.
 - D) unfavorable spending variance.
61. In a standard cost system, overhead is applied to production on the basis of:
- A) the denominator hours chosen for the period.
 - B) the actual hours required to complete the output of the period.
 - C) the standard hours allowed to complete the output of the period.
 - D) none of these.
62. Goldberg Medical Clinic measures its activity in terms of patient-visits. Last month, the budgeted level of activity was 1,080 patient-visits and the actual level of activity was 990 patient-visits. The clinic's director budgets for variable overhead costs of \$3.30 per patient-visit and fixed overhead costs of \$10,600 per month. The actual variable overhead cost last month was \$3,380 and the actual fixed overhead cost was \$8,780. In the clinic's flexible budget performance report for last month, what would have been the variance for the total overhead cost?
- A) \$113 U
 - B) \$297 F
 - C) \$1,707 F
 - D) \$2,004 F

63. In a make-or-buy decision, relevant costs include:
- A) unavoidable fixed costs
 - B) avoidable fixed costs
 - C) fixed factory overhead costs applied to products
 - D) fixed selling and administrative expenses

Use the following to answer questions 64-65:

The Carter Company makes products A and B in a joint process from a single input, R. During a typical production run, 50,000 units of R yield 20,000 units of A and 30,000 units of B at the split-off point. Joint production costs total \$90,000 per production run. The unit selling price for A is \$4 and for B is \$3.80 at the split-off point. However, B can be processed further at a total cost of \$60,000 and then sold for \$7.00 per unit.

64. In a decision between selling B at the split-off point or processing B further, which of the following items is not relevant:
- A) the \$60,000 cost to process B beyond the split-off point
 - B) the \$3.80 unit sales price of B at the split-off point
 - C) the portion of the \$90,000 joint production cost allocated to B
 - D) the \$7 unit selling price for B after further processing
65. If product B is processed beyond the split-off point, the change in operating income from a production run (as compared to selling B at the split-off point) would be:
- A) \$36,000 increase
 - B) \$96,000 increase
 - C) \$42,000 decrease
 - D) \$10,000 decrease
66. Which of the following would be considered a "source" of cash for purposes of constructing a statement of cash flows?
- A) a decrease in accounts receivable.
 - B) an increase in prepaid expenses.
 - C) an increase in accrued liabilities.
 - D) an increase in plant and equipment.

Use the following to answer questions 67-69:

Stovall Company's net income last year was \$82,000. Changes in the company's balance sheet accounts for the year appear below:

	<i>Increases</i> <i>(Decreases)</i>
Debit balances:	
Cash.....	\$3,000
Accounts receivable.....	\$5,000
Inventory.....	\$1,000
Prepaid expenses.....	\$(8,000)
Long-term investments.....	\$80,000
Plant and equipment.....	\$25,000
Credit balances:	
Accumulated depreciation.....	\$66,000
Accounts payable.....	\$(7,000)
Accrued liabilities.....	\$(2,000)
Taxes payable.....	\$0
Bonds payable.....	\$(40,000)
Deferred taxes.....	\$15,000
Common stock.....	\$20,000
Retained earnings.....	\$54,000

The company declared and paid cash dividends of \$28,000 last year. The following questions pertain to the company's statement of cash flows.

67. The net cash provided by (used in) operating activities last year was:
 - A) \$90,000
 - B) \$156,000
 - C) \$82,000
 - D) \$148,000

68. The net cash provided by (used in) investing activities last year was:
 - A) \$85,000
 - B) \$(85,000)
 - C) \$105,000
 - D) \$(105,000)

69. The net cash provided by (used in) financing activities last year was:
 - A) \$48,000)
 - B) \$(48,000)
 - C) \$20,000
 - D) \$(20,000)

70. The gross margin percentage is equal to:
 - A) (Net operating income + Operating expenses)/Sales
 - B) Net operating income/Sales
 - C) Cost of goods sold/Sales
 - D) Cost of goods sold/Net income

71. Earnings per share of common stock is computed by:
- A) dividing net income by the average number of common and preferred shares outstanding.
 - B) dividing net income by the average number of common shares outstanding.
 - C) dividing net income minus preferred dividends by the average number of common and preferred shares outstanding.
 - D) dividing net income minus preferred dividends by the average number of common shares outstanding.
72. A company's current ratio is greater than 1. Purchasing raw materials on credit would:
- A) increase the current ratio.
 - B) decrease the current ratio.
 - C) increase net working capital.
 - D) decrease net working capital.
73. Nybo Company's current liabilities are \$60,000, its long-term liabilities are \$180,000, and its working capital is \$90,000. If Nybo Company's debt to equity ratio is 0.4, its total long-term assets must equal:
- A) \$490,000
 - B) \$840,000
 - C) \$600,000
 - D) \$690,000

Use the following to answer questions 74-75:

Selected financial data from Harmon Company from the most recent year appear below:

Sales	\$150,000
Cost of goods sold.....	\$75,000
Dividend declared and paid.....	\$5,000
Interest expense.....	\$10,000
Operating expenses	\$25,000

The income tax rate is 30%.

74. Net income as a percentage of sales is closest to:
- A) 19%
 - B) 27%
 - C) 33%
 - D) 50%
75. Gross margin as a percentage of sales is closest to:
- A) 27%
 - B) 50%
 - C) 33%
 - D) 19%

Answer Key: 511 Practice Exam

1	A	39	C
2	D	40	C
3	C	41	B
4	C	42	B
5	A	43	A
6	D	44	C
7	B	45	C
8	B	46	C
9	C	47	D
10	A	48	A
11	D	49	C
12	B	50	C
13	A	51	B
14	C	52	D
15	B	53	B
16	B	54	B
17	D	55	A
18	D	56	D
19	B	57	C
20	D	58	D
21	C	59	A
22	A	60	B
23	D	61	C
24	D	62	C
25	C	63	B
26	B	64	C
27	C	65	A
28	A	66	A
29	D	67	B
30	C	68	D
31	B	69	B
32	B	70	A
33	A	71	D
34	D	72	B
35	C	73	D
36	C	74	A
37	D	75	B
38	A		