

Intermediate Accounting

Select the best answer for each of the following questions.

Chapter 7

- 1) Notes Receivables are defined as oral promises of the buyer to pay for goods and services sold.
 - a) True
 - b) **False**
- 2) When the interest stated on the note equals the market rate of interest, the note sells at face value.
 - a) **True**
 - b) False
- 3) When receivables are sold without guarantee, the buyer generally assumes the risk of collectability.
 - a) **True**
 - b) False
- 4) Accounts receivable turnover is computed by dividing cost of goods sold by average net receivables outstanding during the year.
 - a) True
 - b) **False**
- 5) Under IFRS, which of the following is **not** permitted for accounting for material amounts of uncollectable accounts receivable?
 - a. allowance method
 - b. Direct write-off method**
 - c. All of the above are not permitted under IFRS
 - d. All of the above are permitted under IFRS
- 6) Which of the following items is **not** considered cash?
 - a. Personal checks
 - b. Certified checks
 - c. Cashier's checks
 - d. Postdated checks**
- 7) Which of the following items is considered cash?
 - a. Postage stamps
 - b. Travel advances
 - c. Petty cash fund**
 - d. None of the above
- 8) For an investment to be classified as a cash equivalent, it must have a maturity date of
 - a. one month or less
 - b. three months or less**
 - c. nine months or less
 - d. twelve months or less
- 9) Non-trade receivables include the following except
 - a. advances to employees.

- b. advances to subsidiaries.
- c. interest receivable.
- d. all of the above are considered Non-trade receivables.

Chapter 8

- 1) Merchandising companies normally have three inventory accounts- raw material, work-in-process, and finished goods.
 - a) True
 - b) False
- 2) A periodic inventory system continuously tracks changes in the inventory account.
 - a) True
 - b) False
- 2) Under the perpetual inventory system, freight charges on goods purchased are debited to purchases.
 - a) True
 - b) False
- 3) Under the perpetual inventory system, merchandise purchased are debited to inventory.
 - a) True
 - b) False
- 4) In periods of rising prices, the inventory method which provides the highest reported net income is
 - a. average method – periodic
 - b. average method – perpetual
 - c. FIFO
 - d. specific identification.
- 5) In periods of rising prices, the inventory method which provides the highest reported inventory is
 - a. FIFO.
 - b. average method – perpetual.
 - c. specific identification.
 - d. average method – periodic.
- 6) In periods of falling prices, the inventory method which provides the highest reported cost of goods sold is
 - a. average method – periodic.
 - b. average cost.
 - c. FIFO.
 - d. average method – perpetual.
- 7) In periods of falling prices, the inventory method that provides the lowest amount of net income is
 - a. Average cost.
 - b. Moving average.
 - c. FIFO.

- d. Specific identification.
- 8) In periods of falling prices the inventory method that provides the lowest reported inventory is
- a. average method – periodic.
 - b. FIFO.
 - c. average method – perpetual.
 - d. Specific identification.
- 9) In periods of falling prices the inventory method that provides the lowest amount of gross profit is
- a. average method – periodic.
 - b. FIFO.
 - c. average method – perpetual.
 - d. Specific identification.

Chapter 9

- 1) Net realizable value is the estimated selling price in the normal course of business plus estimated costs to complete and estimated costs to make a sale.
- a) True
 - b) False
- 2) Applying lower-of-cost-or-NRV using individual-item approach will generally give the lowest valuation for the ending inventory
- a) True
 - b) False
- 3) Markdowns are decreases in the original sales prices.
- a) True
 - b) False
- 4) Loss method is the only method to be used by companies to record the income effect of valuing inventory at NRV.
- a) True
 - b) False
- 5) In the retail inventory method, normal shortages are deducted from both the cost and retail columns and reported as a special inventory amount or as a loss.
- a) True
 - b) False
- 6) The inventory turnover is computed by dividing the cost of goods sold by
- a. ending inventory.
 - b. ending inventory plus beginning inventory.
 - c. ending inventory less beginning inventory.
 - d. none of the above.

Chapter 10

- 1) When a company purchases a group of different types of assets at a single lump-sum price, it allocates the total cost among the various assets on the basis of their relative fair values.
 - a) True
 - b) False
- 2) When a company acquires land by issuing common shares, the land should be recorded at the total par value of the shares issued
 - a) True
 - b) False
- 3) Proceeds from residual value of demolishing an old building are added to the cost of the land.
 - a) True
 - b) False
- 4) ABC company purchased a tract of land with the aim of selling it in the future at a profit. ABC company should classify that land as property, plant, and equipment
 - a) True
 - b) False
- 5) Which of the following is a major characteristic of property, plant, and equipment?
 - a. tangible in nature
 - b. Acquired for use in operations
 - c. Long-term in nature
 - d. All of the above are major characteristics of property, plant, and equipment.
- 6) All of the following would be classified as property, plant, and equipment except
 - a. factory building
 - b. office building
 - c. equipment held for resale
 - d. equipment used in in operations
- 7) The cost of land excludes:
 - a. The purchase price
 - b. costs of removing old buildings
 - c. costs of grading, filling, draining, and clearing
 - d. property taxes for the first year
- 8) The cost of equipment excludes:
 - a. purchase price
 - b. installation costs
 - c. costs of conducting trial runs
 - d. maintenance
- 9) Private driveways and fences are reported on the statement of financial position as
 - a. land improvements.
 - b. land.
 - c. building.
 - d. none of the above.