Assuit University		Year: 1
Faculty of Commerce	Guiding Questions	May 2020
Department of Accounting	*Twelve pages*	Financial Accounting (2)

First Question:

Choose the right answer a, b, c, or d:

1. A merchandising company that sells directly to consumers is a
a. retailer.
b. wholesaler.
c. broker.
d. service company.

2. Sales revenue less cost of goods sold is called
a. gross profit.
b. net profit.
c. net income.
d. marginal income.

3. After gross profit is calculated, operating expenses are deducted to determine
a. gross margin.
b. net income.
c. gross profit on sales.
d. net margin.

4. Cost of goods sold is determined only at the end of the accounting period in
a. a perpetual inventory system.
b. a periodic inventory system.
c. both a perpetual and a periodic inventory system.
d. neither a perpetual nor a periodic inventory system.

5. In a perpetual inventory system, cost of goods sold is recorded
a. on a daily basis.
b. on a monthly basis.
c. on an annual basis.
d. with each sale.

6. Under a periodic inventory system, purchase of merchandise is debited to the
a. Merchandise Inventory account.
b. Cost of Goods Sold account.
c. Purchases account.
d. Accounts Payable account.

7. The journal entry to record a return of merchandise purchased on account under a perpetual inventory system would credit
a. Accounts Payable.
b. Purchase Returns and Allowances.
c. Sales.
d. Merchandise Inventory.

8. A buyer would record a payment within the discount period under a perpetual inventory system using total invoice value by crediting
a. Accounts Payable.
b. Merchandise Inventory.
c. Purchase Discounts (taken).
d. Sales Discounts (given).

9. Which of the following accounts has a normal credit balance?
a. Sales Returns and Allowances
b. Sales Discounts
c. Sales
d. Selling Expense

10. The journal entry to record a return of merchandise purchased on account under a periodic inventory system would be
a. Accounts Payable
    Purchase Returns and Allowances
b. Purchase Returns and Allowances
    Accounts Payable
c. Accounts Payable
    Inventory
d. Inventory
    Accounts Payable

11. Which of the following accounts has a normal credit balance?
a. Purchases
b. Sales Returns and Allowances
c. Transportation-in
d. Purchase Discounts (taken).

12. Flynn Company purchased merchandise inventory with an invoice price of $5,000 and credit terms of 2/10, n/30. What is the net cost of the goods if Flynn Company pays within the discount period?
a. $5,000
b. $4,900
c. $4,500
d. $4,600

13. The entry to record the collection of the sale amount within the discount period on a sale of $750 with terms of 2/10, n/30 will include a credit to
a. Sales Discounts for $15.
b. Cash for $735.
c. Accounts Receivable for $750.
d. Sales for $750.

14. Company X sells $400 of merchandise on account to Company Y with credit terms of 2/10, n/30. If Company Y issued a check taking advantage of the discount offered, what is the amount of Company Y's check?
a. $280
b. $392

c. $360
d. $320

15. Holt Company sells merchandise on account for $2,000 to Jones Company with credit terms of 2/10, n/30. Jones Company returns $400 of merchandise that was damaged, along with a check to settle the account within the discount period. What is the amount of the check?
a. $1,960
b. $1,968
c. $1,600
d. $1,568

16. The credit terms offered to a customer by a business firm are 2/10, n/30, which means that
a. the customer must pay the bill within 10 days.
b. the customer can deduct a 2% discount if the bill is paid between the 10th and 30th day from the invoice date.
c. the customer can deduct a 2% discount if the bill is paid within 10 days of the invoice date.
d. two sales returns can be made within 10 days of the invoice date and no returns thereafter.

17. Company A sells $500 of merchandise on account to Company B with credit terms of 2/10, n/30. If Company B issued a check taking advantage of the discount offered, what is the amount of Company B's check?
a. $350
b. $490
c. $450
d. $400

18. Hale Company sells merchandise on account for $1,500 to Kear Company with credit terms of 2/10, n/30. Kear Company returns $300 of merchandise that was damaged, along with a check to settle the account within the discount period. What is the amount of the check?
a. $1,470
b. $1,476
c. $1,200
d. $1,176

19. Feine Company sells merchandise on account for $2,000 to Tang Company with credit terms of 2/10, n/30. Tang Company returns $300 of merchandise that was damaged, along with a check to settle the account within the discount period. What entry does Feine Company make upon receipt of the check?
a. Cash 1,700
    Accounts Receivable 1,700
b. Cash 1,666
Sales Returns and Allowances 334
    Accounts Receivable 2,000
c. Cash 1,666
Sales Returns and Allowances 300

Sales Discounts (given) 34
    Accounts Receivable 2,000
d. Cash 1,960
Sales Discounts 40
    Sales Returns and Allowances 300
    Accounts Receivable 1,700

20. Logan Company made a purchase of merchandise on credit from Claude Corporation on August 3, for $6,000, terms 2/10, n/45. On August 10, Logan makes the appropriate payment to Claude. The entry to record the cash payment on August 10 in Logan Company books using net cost method is

a. Accounts Payable 6,000
        Cash 6,000
b. Accounts Payable 5,880
        Cash 5,880
c. Accounts Payable 6,000
        Purchase Returns and Allowances 120
        Cash 5,880
d. Accounts Payable 6,000
        Discount taken 120
        Cash 5,880

Use the following information for questions 21–24.
A company using periodic inventory system and just starting business, made the following four inventory purchases in June:

June 1	1500 units	$ 9000
June 10	2000 units	14000
June 15	3000 units	24000
June 28	<u>1500</u> units	<u>15000</u>
Total	8000 units	$ 62000

A physical count of inventory on June 30 reveals that there are 2000 units on hand.

21. Using the LIFO inventory method, the value of the ending inventory on June 30 is
a. $ 12500
b. $ 19000
c. $ 12000
d. $ 20000

22. Using the FIFO inventory method, the amount allocated to cost of goods sold for June is
a. $ 49500
b. $ 42000
c. $ 43000
d. $ 50000

23. Using the average-cost method, the amount allocated to the ending inventory on June 30 is
a. $ 16000
b. $ 15500

c. $ 14000
d. $ 12000

24. The inventory method which results in the highest gross profit for June is
a. the FIFO method.
b. the LIFO method.
c. the weighted average unit cost method.
d. not determinable.

Use the following information for questions 25–27.
At May 1, 2008, Treeline Company had beginning inventory consisting of 100 units with a unit cost of $7. During May, the company purchased inventory as follows:
200 units at $7 each
300 units at $8 each
The company sold 500 units during the month for $12 per unit. Treeline uses the average cost method.

25. The average cost per unit for May is
a. $7.00.
b. $7.50.
c. $7.60.
d. $8.00.

26. The value of Treeline's inventory at May 31, 2008 is
a. $700.
b. $750.
c. $800.
d. $4,500.

27. Treeline's gross profit for the month of May is
a. $2,250.
b. $3,750.
c. $4,500.
d. $6,000.

Use the following information for questions 28-31.
Tier II Company uses a periodic inventory system. Details for the inventory account for the month of January, 2008 are as follows:

	Units	Per unit price	Total
Balance, 1/1/08	200	$5.00	$1,000
Purchase, 1/15/08	100	5.30	530
Purchase, 1/28/08	100	5.50	550

An end of the month (1/31/08) inventory showed that 120 units were on hand.

28. How many units did the company sell during January, 2008?
a. 80
b. 120
c. 200
d. 280

29. If the company uses FIFO, what is the value of the ending inventory?
a. $520
b. $600
c. $656
d. $1,424

30. If the company uses LIFO, what is the value of the ending inventory?
a. $520
b. $600
c. $656
d. $1,480

31. If the company uses FIFO and sells the units for $10 each, what is the gross profit for the month?
a. $1,376
b. $1,424
c. $2,800
d. $3,000

Use the following inventory information for questions 32–34.

July 1 Beginning Inventory 20 units at $19	$ 380
July 7 Purchases 70 units at $20	1,400
July 22 Purchases 10 units at $22	220
Total	$ 2,000

A physical count of merchandise inventory on July 31 reveals that there are 30 units on hand.

32. Using the average-cost method, the value of ending inventory is
a. $580.
b. $600.
c. $610.
d. $620.

33. Using the FIFO inventory method, the amount allocated to cost of goods sold for July is
a. $580.
b. $620.
c. $1,380.
d. $1,420.

34. Using the LIFO inventory method, the amount allocated to cost of goods sold for July is
a. $580.
b. $620.
c. $1,380.
d. $1,420.

Use the following information for questions 35–37.
Nov. 1 Inventory 15 units @ $8.00 each
Nov. 8 Purchase 60 units @ $8.60 each

Nov. 17 Purchase 30 units @ $8.40 each
Nov. 25 Purchase 45 units @ $8.80 each

A physical count of merchandise inventory on November 30 reveals that there are 50 units on hand. Assume a periodic inventory system is used.

35. Cost of goods sold under the average-cost method is
a. $860.
b. $856.
c. $845.
d. $800.

36. Ending inventory under FIFO is
a. $438.
b. $846.
c. $421.
d. $863.

37. Ending inventory under LIFO is
a. $438.
b. $421.
c. $846.
d. $863.

Use the following inventory information for questions 38–40.

July 1	Beginning Inventory 200 units at $ 30 each
5	Purchases 800 units at $25 each
14	Sale 700 units
21	Purchases 1700 units at $20 each
30	Sale 1500 units

38. Assuming that a perpetual inventory system is used, what is the cost of ending inventory on a FIFO basis?
a. $15000
b. $10000
c. $12500
d. $12000

39. Assuming that a perpetual inventory system is used, what is the cost of ending inventory on a LIFO basis?
a. $15000
b. $10000
c. $12500
d. $12000

40. Assuming that a perpetual inventory system is used, what is the cost of ending inventory under the average-cost method?
a. $10650
b. $10000
c. $12500
d. $10450

Second Question:

Choose the right answer a, b, c, or d:

41. Current assets of a company would *not* include
a. inventory.
b. accounts receivable.
c. notes payable.
d. cash.

42. Cash in transit is:
a. cash sent to the bank but not recorded yet in the company records.
b. cash sent to the bank but not recorded yet in the bank records.
c. cash sent to the company but not recorded yet in the company records.
d. cash sent to the company but not recorded yet in the bank records..

43. NSF check is:
a. check rejected by the bank and this rejection not recorded yet in the company records.
b. check rejected by the bank and this rejection not recorded yet in the bank records.
c. check rejected by the company and this rejection not recorded yet in the bank records.
d. check rejected by the company and this rejection not recorded yet in the company records.

44. Outstanding checks are:
a. checks issued by the bank but not paid or recorded yet by the company.
b. checks issued by the bank but not paid or recorded yet by the bank.
c. checks issued by the company but not paid or recorded yet by the company.
d. checks issued by the company but not paid or recorded yet by the bank.

Use the following inventory information for questions 45–47
Allowance for doubtful accounts 1/1/2019 $50000
Actual uncollectible accounts (bad debts) during 2019 $70000
Recovery of previous uncollectible accounts, collected in cash, $5000
Accounts receivable 31/12/2019 $800000
New allowance is 5% of accounts receivable
The company uses the balance sheet approach

45. The journal entry to record actual uncollectible accounts:
a. Allowance for doubtful accounts.. 70000
 Accounts Receivable 70000
b. Accounts Receivable 70000
 Allowance for doubtful accounts.. 70000
c. Allowance for doubtful accounts.. 70000
 Cash 70000
d. Cash 70000
 Allowance for doubtful accounts.. 70000

46. The journal entry to record recovery of previous uncollectible accounts:
a. Allowance for doubtful accounts.. 5000
Accounts Receivable 5000
b. Accounts Receivable 5000
Allowance for doubtful accounts.. 5000
c. Allowance for doubtful accounts.. 5000
Cash 5000
d. Cash 5000
Allowance for doubtful accounts.. 5000

47. The adjusting entry to record the settlement of allowance at 31/12/2019:
a. Allowance for doubtful accounts.. 55000
Accounts Receivable 55000
b. Uncollectible accounts expense... 55000
Allowance for doubtful accounts..5 5000
c Uncollectible accounts expense... 25000
Allowance for doubtful accounts...25000
d. Cash 55000
Allowance for doubtful accounts.. 55000

Use the following inventory information for questions 48-50
Allowance for doubtful accounts 1/1/2019 $60000
Actual uncollectible accounts (bad debts) during 2019 $52000
Recovery of previous uncollectible accounts, collected in cash, $12000
Accounts receivable 31/12/2019 $500000
Net credit sales $600000
New allowance is 5% of net credit sales
The company uses the income statement approach

48. The journal entry to record actual uncollectible accounts:
a. Accounts Receivable 52000
Allowance for doubtful accounts.. 52000
b. Allowance for doubtful accounts.. 52000
Accounts Receivable 52000
c. Allowance for doubtful accounts.. 52000
Cash 52000
d. Cash 52000
Allowance for doubtful accounts.. 52000

49. The journal entry to record recovery of previous uncollectible accounts:
a. Allowance for doubtful accounts.. 12000
Accounts Receivable 12000
b. Cash 12000
Allowance for doubtful accounts.. 12000
c. Allowance for doubtful accounts.. 12000
Cash 12000
d. Accounts Receivable 12000
Allowance for doubtful accounts.. 12000

50. The adjusting entry to record the settlement of allowance at 31/12/2019:
a. Allowance for doubtful accounts.. 10000
    Accounts Receivable 10000
b. Uncollectible accounts expense... 10000
    Allowance for doubtful accounts... 10000
c Uncollectible accounts expense.. 30000
    Allowance for doubtful accounts..30000
d. Cash 30000
    Allowance for doubtful accounts.. 30000

51. Purchased furniture amounted to $8000, paid in cash $3000 and the remaining is due within 10 days

a. Furniture debit 8000 & cash credit 8000.
b. Cash debit 8000 & furniture credit 8000.
c. Furniture debit 8000 & cash credit 3000, accounts payable credit 5000.
d. Furniture debit 8000 & cash credit 3000, notes payable credit 5000.

52**.** Purchased equipments for $12000, of which made $3000 a cash down payment and the rest for note after two months. .

a. Equipment debit 12000 and cash credit 12000.
b. Cash debit 3000, notes receivable debit 9000 and equipment credit 12000.
c. Equipment debit 12000, cash credit 3000, and accounts payable credit 9000.
d. Equipment debit 12000, cash credit 3000, and notes payable credit 9000.

53. ABC Company purchased a machine for note amounted to $150000 on July 30. Transportation expense was $6000 and installation expense was $4000, these expenses paid in cash.
The journal entry is:
a. Debit: machines $150000, transportation expense $6000 and installation expense $4000, credit: notes payable $150000, cash $10000.
b . Debit: machines $160000, credit: notes payable $150000, cash $10000.
c. Debit: machines $150000 and cash $10000, , credit: notes payable $150000, transportation expense $6000 and installation expense $4000.
d. Debit: machines $160000, credit: accounts payable $150000, cash $10000.

54. ABC Company purchased a land amounted to $250000 of which $50000 paid in cash and the remaining on credit. registration expense was $$20000 paid in cash.
The journal entry is:
a. Debit: land $250000, registration expense $20000, credit: accounts payable $200000, cash $70000.
b . Debit: land $250000, registration expense $20000, credit: notes payable $200000, cash $70000.
c. Debit: land $270000, credit: notes payable $200000, cash $70000.
d. Debit: land $270000, credit: accounts payable $200000, cash $70000.

55. ABC Company paid in cash the following expenses:
1. Periodical maintenance of machines $3000.
2. renewal of vehicle engine $10000.
The journal entry is:

a. Debit: machines $3000, and renewal expense $10000, credit: cash $13000.
b . Debit: machines $3000, and vehicles $10000, credit: cash $13000. .
c. Debit: maintenance expense $3000, and vehicles $10000, credit: cash $13000.
d. Debit: maintenance expense $3000, and renewal expense $10000, credit: cash $13000.

56. ABC Company purchased a computer for $35000 on May 1. The company expects to use the computer for 5 years. It has $5000 Residual value.
Monthly depreciation expense, using straight-line method, at 31/12 on computer is:
a. $7000.
b. $8000.
c. $4000.
d. $6000.

57. ABC Company purchased an equipment for $100000 on January 1, 2018. The annual depreciation rate is 20%. It has $5000 Residual value.
Annual depreciation expense, using declining method, at 31/122018 and 31/12/2019 on the equipment is:
a. $20000 2018 and $20000 2019.
b. $19000 2018 and $19000 2019.
c. $20000 2018 and $19000 2019.
d. $20000 2018 and $16000 2019.

58. ABC Company purchased a machine for $175000 on June 30. The company expects to use the equipment for 5 years. It has $15000 Residual value. The total estimated units could be produced by this machine are 80000 units. The actual production for the first three years was:
2017 15000 units, 2018 20000 units and, 2019 17000 units.
Annual depreciation expense, using units of outputs method, at 31/12/2017 and 31/12/2018 on the machine is:
a. $16000 2017 and $32000 2018.
b. $30000 2017 and $40000 2018.
c. $32000 2017 and $32000 2018.
d. $40000 2017 and $34000 2017.

59. The cost of old equipment is $125000. The accumulated depreciation of this equipment until date of sale is $105000. This equipment was sold in cash and the sale value was $17000.

The journal entry is:
a. Cash.. 17,000
Accumulated Depreciation—Equipment 105,000
Loss on Disposal... 3,000
Equipment 125,000

b. Cash..17,000
Equipment 125,000
Accumulated Depreciation—Equipment.......................... 105,000
Gain on Disposal 37,000

c. Cash...17,000
Accumulated Depreciation— Equipment............ 125,000
Equipment.. 125,000
Gain on Disposal 17,000

d. Accumulated Depreciation—Equipment......... 105,000
Loss on Disposal.. 37,000
Equipment 125,000
Cash.. 17,000

60. The cost of old equipment is $150000. The accumulated depreciation of this equipment until date of sale is $135000. This equipment was sold in cash and the sale value was $20000.

The journal entry is:
a. Cash.. 10,000
Accumulated Depreciation—Equipment 135,000
Loss on Disposal.. 5,000
Equipment 150,000

b. Cash...20,000
Equipment 150,000
Accumulated Depreciation—Equipment.......................... 135,000
Gain on Disposal 35,000

c. Cash...20,000
Accumulated Depreciation— Equipment............ 135,000
Equipment.. 150,000
Gain on Disposal 5,000

d. Accumulated Depreciation—Equipment......... 135,000
Loss on Disposal.. 35,000
Equipment 150,000
Cash.. 20,000

Best Wishes