Chapter 4 — Accrual Accounting and AJE

(LO4) On October 1, Cynthia Company paid $6,000 for a one-year insurance policy, debiting Prepaid Insurance and crediting Cash. The adjusting entry on December 31 will require a:
   a. debit to Insurance Expense for $1,500.
   b. debit to Insurance Expense for $4,500.
   c. credit to Prepaid Insurance for $4,500.
   d. credit to Cash for $1,500.

(LO4) At the beginning of an accounting period, a company purchased $800 of supplies, debiting Supplies and crediting Cash. At the end of the accounting period, a physical count of supplies showed that only $100 of supplies were still on hand. The adjusting entry will require a:
   a. credit to Supplies Expense for $700.
   b. debit to Supplies Expense for $100.
   c. debit to Supplies for $700.
   d. credit to Supplies for $700.

(LO4) A company accountant has determined that monthly depreciation on a new company vehicle is $500. The journal entry to record the first month’s depreciation will include a:
   a. debit to Depreciation Expense for $500.
   b. credit to Depreciation Expense for $500.
   c. debit to Accumulated Depreciation for $500.
   d. debit to Vehicle for $500.

(LO4) Little Corporation received $5,000 from a customer for whom it is to perform work in the future, debiting Cash and crediting Unearned Revenue. At the end of the accounting period, Little has earned $2,000 of the revenue. The adjusting entry will require a:
   a. debit to Cash for $2,000.
   b. debit to Service Revenue for $2,000.
   c. credit to Service Revenue for $2,000.
   d. credit to Service Revenue for $3,000.

(LO5) Buddy Corporation pays its employees $1,000 per five-day week. The last day of the month falls on a Thursday, and financial statements will be prepared that day. The adjusting entry for salaries and wages will require a:
   a. debit to Salaries and Wages Payable for $200.
   b. credit to Salaries and Wages Expense for $200.
   c. debit to Salaries and Wages Expense for $200.
   d. debit to Salaries and Wages Expense for $800.
(LO5) A company borrows $15,000 at 8% interest for 3 months on June 1. If adjusting entries are written on June 30, how much will be credited to Interest Payable?

<table>
<thead>
<tr>
<th>Option</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>a.</td>
<td>$100</td>
</tr>
<tr>
<td>b.</td>
<td>$300</td>
</tr>
<tr>
<td>c.</td>
<td>$900</td>
</tr>
<tr>
<td>d.</td>
<td>$1,200</td>
</tr>
</tbody>
</table>

Chapter 5 — Merchandising Operations

<table>
<thead>
<tr>
<th>Buyer’s Point of View</th>
<th>Perpetual Inventory System</th>
<th>Periodic Inventory System</th>
</tr>
</thead>
<tbody>
<tr>
<td>Purchase of Merchandise on Credit</td>
<td>dr. Inventory cr. Accounts Payable</td>
<td>Purchases Accounts Payable</td>
</tr>
<tr>
<td>Freight costs</td>
<td>Inventory Cash</td>
<td>Freight-In Cash</td>
</tr>
<tr>
<td>Purchase Returns and Allowances</td>
<td>Accounts Payable Inventory</td>
<td>Accounts Payable Purchase R/A</td>
</tr>
<tr>
<td>Payment on account with a discount</td>
<td>Accounts Payable Cash Inventory</td>
<td>Accounts Payable Cash Purchase Discounts</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Seller’s Point of View</th>
<th>Perpetual Inventory System</th>
<th>Periodic Inventory System</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sale of Merchandise on Credit</td>
<td>Accounts Receivable Sales Revenue Cost of Goods Sold Inventory</td>
<td>Accounts Receivable Sales Revenue No entry</td>
</tr>
<tr>
<td>Freight costs</td>
<td>Freight-Out Cash</td>
<td>Freight-Out Cash</td>
</tr>
<tr>
<td>Purchase Returns and Allowances</td>
<td>Sales returns/ allowances Accounts Receivable Inventory Cost of Goods Sold</td>
<td>Sales returns/ allowances Accounts Receivable No entry</td>
</tr>
<tr>
<td>Payment on account with a discount</td>
<td>Cash Sales Discounts Accounts Receivable</td>
<td>Cash Sales Discounts Accounts Receivable</td>
</tr>
</tbody>
</table>
(LO2) Poobah Corporation, which uses a perpetual inventory system, purchased on account $3,000 of merchandise on June 4. What entry is required on June 8 when it returned $500 of the merchandise to the seller?

a. Accounts Payable 500
    Inventory 500
b. Inventory 500
    Accounts Payable 500
c. Accounts Payable 500
    Purchases Returns 500
d. Cash 500
    Inventory 500

(LO2) Cassie Corporation, which uses a perpetual inventory system, purchased on account $2,000 of merchandise on July 5. Credit terms were 2/10, n/30. It returned $400 of the merchandise on July 9. When it pays its bill on July 11, the journal entry will require a:

a. debit to Accounts Payable for $2,000.
b. debit to Accounts Payable for $1,600.
c. credit to Cash for $1,600.
d. debit to Inventory for $32.

(LO4) Sales revenues are $10,000, sales returns and allowances are $500, and sales discounts are $1,000. What is the dollar amount of net sales?

a. $11,500
b. $10,500
c. $10,000
d. $ 8,500

(LO4) Gross profit is $50,000, operating expenses are $15,000, and net sales total $75,000. What is cost of goods sold?

a. $10,000
b. $25,000
c. $35,000
d. $80,000
Chapter 6 — Reporting and Analyzing Inventory

(LO2) Beginning inventory is $50,000, cost of goods purchased is $70,000, and cost of goods sold is $90,000. What is ending inventory?
   a. $ 30,000
   b. $ 50,000
   c. $ 70,000
   d. $110,000

On June 30 there are 350 units in ending inventory.

(LO2) What is the value of ending inventory using first-in, first-out (FIFO)?
   a. $1,000
   b. $1,726
   c. $2,400
   d. $5,177

(LO2) What is the value of ending inventory using last-in, first-out (LIFO)?
   a. $1,000
   b. $1,726
   c. $2,400
   d. $5,177

(LO2) What is the cost of goods sold using average cost?
   a. $1,000
   b. $1,726
   c. $2,400
   d. $5,177

<table>
<thead>
<tr>
<th>Date</th>
<th>Units</th>
<th>Unit Cost</th>
<th>Total Cost</th>
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<tbody>
<tr>
<td>Feb. 5</td>
<td>200</td>
<td>$2.00</td>
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</tr>
<tr>
<td>Mar. 6</td>
<td>500</td>
<td>4.00</td>
<td>2,000</td>
</tr>
<tr>
<td>Apr. 9</td>
<td>400</td>
<td>6.00</td>
<td>2,400</td>
</tr>
<tr>
<td>Jun. 7</td>
<td>300</td>
<td>7.00</td>
<td>2,100</td>
</tr>
<tr>
<td></td>
<td>1,400</td>
<td></td>
<td>6,900</td>
</tr>
</tbody>
</table>
Chapter 8 — Reporting & Analyzing Receivables

(LO3) The Allowance for Doubtful Accounts has a $400 credit balance. An aging schedule shows that total estimated bad debts is $3,600. The adjusting entry will require a debit and a credit for:

a. $4,000.
b. $3,600.
c. $3,200.
d. some other amount.

(LO3) The Allowance for Doubtful Accounts has a $400 debit balance. An aging schedule shows that total estimated bad debts is $3,600. The adjusting entry will require a debit and a credit for:

a. $4,000.
b. $3,600.
c. $3,200.
d. some other amount.

(LO5) A company holds a 90-day, 12%, $18,000 note which it received on December 1. The adjusting entry for this note on December 31 includes a:

a. debit to Interest Receivable for $540.
b. credit to Notes Receivable for $180.
c. credit to Interest Revenue for $180.
d. credit to Interest Revenue for $540.

Chapter 9 — Reporting & Analyzing Long-Lived Assets

(LO5) A company sold for $3,000 a plant asset that had a cost of $10,000 and accumulated depreciation of $7,500. The company had a:

a. loss of $500.
b. gain of $500.
c. gain of $3,000.
d. loss of $7,000.

(LO9) On January 2, 2014, Sacks Company purchased a piece of equipment for $20,000. It has a salvage value of $4,000 and an estimated useful life of 8 years. Depreciation expense for 2014 under the double-declining-balance method is:

a. $5,000.
b. $4,000.
c. $2,500.
d. $2,000.
(BE 9-3) Howe Chemicals Company acquires a delivery truck at a cost of $37,900 on January 1, 2014. The truck is expected to have a salvage value of $2,590 at the end of its 6-year useful life. Compute annual depreciation for the first and second years using the straight-line method.

Chapter 10 — Reporting and Analyzing Liabilities

(LO2) A corporation issued a $50,000, 9%, 4-month note on July 1. If the corporation's year-end is September 30, then the adjusting entry for interest on that date is:
- a. Interest Expense 1,125
  Notes Payable 1,125
- b. Interest Expense 1,125
  Interest Payable 1,125
- c. Interest Expense 1,500
  Notes Payable 1,500
- d. Interest Expense 1,500
  Interest Payable 1,500

(LO5) When the contractual rate of interest exceeds the market rate of interest, the bond sells at:
- a. face value.
- b. a discount.
- c. a premium.
- d. some amount other than those listed above.
(LO8) Bonds with a face value of $800,000 and a contractual rate of interest of 8% sold at 98 on January 1. Interest is payable on July 1 and January 1, and the bonds mature in 10 years. On July 1 the dollar amount of discount to be amortized, using straight-line amortization, is:
   a. $  800.
   b. $1,600.
   c. $2,000.
   d. $2,400.

(LO8) Bonds with a face value of $600,000 and a contractual rate of interest of 8% sold at 102 on January 1. Interest is payable on July 1 and January 1, and the bonds mature in 10 years. On July 1 the journal entry to pay interest and record straight-line amortization will include a:
   a. credit to Cash for $23,400.
   b. debit to Premium on Bonds Payable for $1,200.
   c. credit to Premium on Bonds Payable for $600.
   d. debit to Bond Interest Expense for $23,400.

Chapter 11 — Reporting & Analyzing Stockholder’s Equity

(LO2) If 3,000 shares of $5 par value common stock are sold for $6 per share, then the journal entry includes a:
   a. debit to Paid-in Capital in Excess of Par Value for $3,000.
   b. debit to Cash for $15,000.
   c. credit to Common Stock for $15,000.
   d. credit to Common Stock for $18,000.
(LO2) If the Common Stock account has a balance of $20,000, the Paid-in Capital in Excess of Par Value account has a balance of $3,000, and Retained Earnings has a balance of $40,000, then total stockholders' equity is:
   a. $63,000.
   b. $60,000.
   c. $57,000.
   d. $17,000.

(LO3) A corporation sold 1,000 shares of its $2.00 par value common stock for $10.00 per share and later repurchased 100 of those shares for $12.00 per share. The journal entry for the repurchase includes a debit to:
   a. Common Stock for $1,200.
   b. Treasury Stock for $1,200.
   c. Treasury Stock for $200.
   d. Cash for $1,200.

(LO3) If the Common Stock account has a balance of $20,000, the Paid-in Capital in Excess of Par Value account has a balance of $3,000, Retained Earnings has a balance of $40,000, and Treasury Stock has a balance of $1,000, then total stockholders' equity is:
   a. $64,000.
   b. $63,000.
   c. $62,000.
   d. $59,000.

(LO4) A corporation has cumulative preferred stock on which it pays dividends of $20,000 per year. The dividends are in arrears for two years. If the corporation has in the current year $90,000 available for dividends, then the common stockholders will receive:
   a. $20,000.
   b. $30,000.
   c. $40,000.
   d. $60,000.

(LO5) A corporation has declared a $1.00 per share cash dividend on its outstanding 500,000 shares of common stock. The journal entry on the date of payment of the dividend includes a debit to:
   a. Dividends Payable for $500,000.
   b. Cash Dividends for $500,000.
   c. Cash for $500,000.
   d. Common Stock Dividends Distributable for $500,000.
Chapter 12 — Statement of Cash Flows

(LO6) A company has $200,000 of net income, $500,000 of revenues from sales, and an increase in accounts receivable of $50,000. If the company uses the direct method of preparing the statement of cash flows, then cash receipts from customers total:

a. $500,000.
b. $450,000.
c. $300,000.
d. $150,000.

(LO6) A company has cost of goods sold of $300,000, an increase in inventory of $100,000, and an increase in accounts payable of $30,000. If it uses the direct method of preparing the statement of cash flows, then purchases total:

a. $400,000.
b. $370,000.
c. $300,000.
d. $200,000.

Comparative Balance Sheet Data
December 31, 2015 and 2014

<table>
<thead>
<tr>
<th></th>
<th>2015</th>
<th>2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash</td>
<td>$3,600</td>
<td>$2,300</td>
</tr>
<tr>
<td>Accounts Receivable</td>
<td>3,500</td>
<td>2,600</td>
</tr>
<tr>
<td>Inventory</td>
<td>3,200</td>
<td>3,800</td>
</tr>
<tr>
<td>Equipment</td>
<td>3,800</td>
<td>3,400</td>
</tr>
<tr>
<td>Accumulated Depreciation</td>
<td>(2,400)</td>
<td>(2,340)</td>
</tr>
<tr>
<td>Long-Term Investments</td>
<td>2,600</td>
<td>2,840</td>
</tr>
<tr>
<td></td>
<td>$14,300</td>
<td>$12,600</td>
</tr>
<tr>
<td>Accounts Payable</td>
<td>$2,400</td>
<td>$1,800</td>
</tr>
<tr>
<td>Accrued Liabilities</td>
<td>400</td>
<td>500</td>
</tr>
<tr>
<td>Bonds Payable</td>
<td>2,800</td>
<td>3,100</td>
</tr>
<tr>
<td>Common Stock</td>
<td>3,800</td>
<td>3,400</td>
</tr>
<tr>
<td>Retained Earnings</td>
<td>4,900</td>
<td>3,800</td>
</tr>
<tr>
<td></td>
<td>$14,300</td>
<td>$12,600</td>
</tr>
</tbody>
</table>

Selected data from the 2015 income statement include net income of $2,140 and depreciation expense of $60. Cash dividends declared and paid totaled $1,040.

REQUIRED: Using the indirect method, please prepare a statement of cash flows for Reilly Corporation for the year ended December 31, 2015 (LO4). For long-term assets, long-term liabilities, and common stock, assume that an increase or decrease in these accounts involved a cash transaction.
1. Reilly Corporation
   Statement of Cash Flows
   For the Year Ended December 31, 2015

   Cash flows from operating activities
   Net income $2,140
   Adjustments to reconcile net income to net
   cash provided by operating activities:
   Depreciation expense $ 60
   Decrease in inventory 600
   Increase in accounts payable 600
   Increase in accounts receivable (900)
   Decrease in accrued liabilities (100) 260
   Net cash provided by operating activities 2,400

   Cash flows from investing activities
   Sale of long-term investments 240
   Purchase of equipment (400)
   Net cash used by investing activities (160)

   Cash flows from financing activities
   Issuance of common stock 400
   Retirement of bonds payable (300)
   Payment of cash dividends (1,040)
   Net cash used by financing activities (940)

   Net increase in cash 1,300
   Cash at beginning of period 2,300
   Cash at end of period $3,600