1. Company F has sales of $600,000 and net income of $55,000 for 2008. Based on prior experience, the company estimates 2% to be bad debt. Using the percentage of credit sales method to estimate bad debt, how much bad debt should be recorded in 2008?

   a. $12,000  
   b. $1,100  
   c. $10,900  
   d. $13,100

2. Company A determines on Feb. 1, 2009, that a $1000 account receivable will be uncollectible. What effect does this write off have on the financial statements?

   a. Increases bad debt expense  
   b. Increases the Allowance for Doubtful Accounts  
   c. Decreases bad debt expense  
   d. Has no impact

Use the following information to answer questions 3 – 4.

<table>
<thead>
<tr>
<th>Age</th>
<th>Amount</th>
<th>Estimated Bad Debt %</th>
</tr>
</thead>
<tbody>
<tr>
<td>0-30 days</td>
<td>$840,000</td>
<td>1.5%</td>
</tr>
<tr>
<td>30-60 days</td>
<td>$450,000</td>
<td>3.0%</td>
</tr>
<tr>
<td>60-90 days</td>
<td>$235,000</td>
<td>5.7%</td>
</tr>
<tr>
<td>&gt;90 days</td>
<td>$65,000</td>
<td>11.6%</td>
</tr>
</tbody>
</table>

3. How much should be ending inventory for the Allowance for Doubtful Accounts at the end of the year?

   a. $46,570  
   b. $47,650  
   c. $47,035  
   d. $37,035
4. The beginning balance of the Allowance for Doubtful Accounts for the year was $12,540. Write-offs of bad debt equaled $5,000. How much bad debt expense should be recorded for the year?
   a. $52,035
   b. $12,540
   c. $17,540
   d. $39,495

5. Company C has a beginning balance of $6,000 for the Allowance for Doubtful Accounts. During the year, the company has recorded an additional $7,900 of bad debt. The ending balance in the Allowance for Doubtful Accounts is $10,000. How much Accounts Receivable was written off during the year?
   a. $2,900
   b. $3,900
   c. $10,000
   d. $1,900

5. Before adjustment, the allowance for doubtful accounts has a credit balance of $1,900. The company had $210,000 of net credit sales during the period and historically fails to collect 3% of credit sales. The company uses the percentage of credit sales method of estimating doubtful accounts. After adjusting for estimated bad debts, the new balance in the allowance for doubtful accounts account will be:
   a. $3,700
   b. $4,400
   c. $6,300
   d. $8,200

6. When a company that uses the allowance method writes off an actual bad debt:
   a. total assets decrease.
   b. total liabilities increase.
   c. total expenses increase and total revenues increase.
   d. total assets, revenue, and expenses remain the same.
Interest on Notes Receivable (1)
7. ABC Company lends $1,000,000 to Company AAA on July 1, 2008 to be collected on June 30, 2009, principal plus interest. The interest on the loan is 10%. How much interest revenue should be recognized on December 31, 2008?
   a. $100,000
   b. $0
   c. $50,000
   d. $1,100,000

Depreciation Concepts (1)
8. All of the following are intangible assets except:
   a. Licensing rights
   b. Equipment
   c. Trademarks
   d. Copyrights

Depreciation Methods (3)
For questions 9-11 use the following information:

Purchased Machine………………………………….. $90,000
Estimated Life…………………………………………… 4 years
Estimated Production………………………………… 100,000
Estimated Residual Value……………………………. $10,000

9. Straight Line:

<table>
<thead>
<tr>
<th>Year</th>
<th>Depreciation Expense</th>
<th>Accumulated Depreciation</th>
<th>Book Value</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
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</tbody>
</table>
10. Units of Production:

<table>
<thead>
<tr>
<th>Year</th>
<th>Actual Units</th>
<th>Depreciation Expense</th>
<th>Accumulated Depreciation</th>
<th>Book Value</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>20,000</td>
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<td></td>
<td>30,000</td>
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<tr>
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<td>25,000</td>
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<td></td>
<td>25,000</td>
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</tbody>
</table>

11. Double-Declining Balance:

<table>
<thead>
<tr>
<th>Year</th>
<th>Depreciation Expense</th>
<th>Accumulated Depreciation</th>
<th>Book Value</th>
</tr>
</thead>
<tbody>
<tr>
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</table>
Acquisition Cost (1)

12. A construction company recently purchased an old building for a project for 200,000. The company will turn the building into a hotel, but before it can be used the company must remodel the building for 100,000, train new employees for 1,000, and install electricity for 1,500. Before the first opening day, the electricity needed repaired for $500. What would be the cost of the building on the company’s balance sheet?
   a. 300,000
   b. 200,000
   c. 302,500
   d. 303,000

13. ABC, Inc. purchased a machine in 2016 for $40,000. They paid an additional $450 for installation costs. During 2017, the company had to do routine maintenance on the machine, which cost a total of $2,500. Which of the following is true regarding the accounting treatment of the maintenance costs?
   a. The $2,500 in maintenance costs are treated as capitalized costs.
   b. The $2,500 of maintenance costs are added to the cost of the machine.
   c. The $2,500 maintenance costs are treated as revenue expenditures.
   d. The $2,500 maintenance costs are ignored for accounting purposes.

14. Cy Co. purchased a machine and incurred the following costs:

<table>
<thead>
<tr>
<th>Description</th>
<th>Cost</th>
</tr>
</thead>
<tbody>
<tr>
<td>Purchase price</td>
<td>$30,000</td>
</tr>
<tr>
<td>Sales tax</td>
<td>2,000</td>
</tr>
<tr>
<td>Shipping costs paid by buyer</td>
<td>250</td>
</tr>
<tr>
<td>Installation costs</td>
<td>2,500</td>
</tr>
<tr>
<td>Prepaid maintenance contract for first year of machine’s life</td>
<td>300</td>
</tr>
</tbody>
</table>

In addition, Cy Co. had to pay $400 in repairs after the company’s employees damaged the machine.

What is the acquisition cost (i.e., capitalized cost) of the machine?
   a. $34,500
   b. $34,750
   c. $32,250
   d. $35,050
**Disposal of Assets (1)**
15. John Deere purchased a piece of equipment in 2014 for $50,000. It records depreciation using double declining balance and the equipment has an estimated useful life of 8 years. In January 2018, John Deere sold the equipment for $12,000. What would be the gain or loss that must be recorded?
   a. 12,500 loss
   b. 3,820 Gain
   c. 3,820 Loss
   d. 12,500 Gain

<table>
<thead>
<tr>
<th>Year</th>
<th>Depreciation Expense</th>
<th>Accumulated Depreciation</th>
<th>Book Value</th>
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</thead>
<tbody>
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</table>

**Contingent Liabilities (1)**
16. At which point is a contingent liability not recorded and only disclosed in the notes to the financial statements?
   a. Probable and Can Estimate
   b. Probable and Can't Estimate
   c. Reasonably Possible
   d. Remote
   e. Both A and B
   f. Both B and C
17. What is the proper accounting treatment for: “Amount cannot be reasonably estimated and likelihood is reasonably possible.”
   a. Footnote disclosure
   b. Record expense and liability
   c. Record expense but not liability
   d. Nothing required

Payroll (1)
18. Which item is not paid by an employer for payroll purposes?
   a. FICA
   b. Unemployment
   c. Federal/State Income Tax
   d. None of the above

Bonds (5)
A 9% bond is issued at 104 on January 1, 2015. The face value is 1,000 and matures in 6 years. The market rate is 8%. Interest is paid annually on January 1st.

19. What is the correct journal entry to record the issuance of the bond?
   a. Dr. Cash 1,000
      Cr. Bonds Payable 1,000
   b. Dr. Cash 1,000
      Dr. Discount on Bonds Payable 40
      Cr. Bonds Payable 1,040
   c. Dr. Cash 1,040
      Cr. Premium on Bonds Payable 40
      Cr. Bonds Payable 1,000
   d. Dr. Bonds Receivable 1,040
      Cr. Cash 1,040
20. What is the correct adjusting entry for December 31, 2015? (Round to nearest whole number)
   a. Dr. Interest Expense  83
      Dr. Premium on Bonds Payable  7
      Cr. Cash  90
   b. Dr. Interest Expense  94
      Cr. Premium on Bonds Payable  4
      Cr. Interest Payable  90
   c. Dr. Interest Expense  90
      Cr. Interest Payable  90
   d. Dr. Interest Expense  83
      Dr. Premium on Bonds Payable  7
      Cr. Interest Payable  90

21. What is the amount of interest expense in year three? (Round to the nearest whole number)
   a. 83
   b. 82
   c. 81
   d. 80

<table>
<thead>
<tr>
<th>Date</th>
<th>Cash Payment</th>
<th>Interest Expense</th>
<th>Premium/Discount Amortization</th>
<th>Carrying Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>1/1/2015</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>12/31/2015</td>
<td></td>
<td></td>
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<tr>
<td>12/31/2016</td>
<td></td>
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</tr>
<tr>
<td>12/31/2017</td>
<td></td>
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Ratios (3)

22. What is the purpose of receivables turnover?
   a. How many customers purchase on credit each year
   b. How much credit sales a company extends each year
   c. How effective the company is at collecting its credit sales
   d. How long it takes to collect a credit sale
23. What does the debt to equity ratio tell us about a company?
   a. Are the assets the company has financed more with debt or equity?
   b. How much debt and equity are on the balance sheet?
   c. How long it will take to pay off all its debt
   d. None of the above

24. What does a times interest earned ratio above one tell us? (Earnings Before Interest and Tax / Interest Expense)
   a. The company has enough net income to cover its debt
   b. The company has enough net income to purchase PPE
   c. The company has enough net income to cover its taxes
   d. The company has enough net income to cover its interest expense