1. A company receives interest on a $25,000, 8%, 5-year note receivable each April 1. At December 31, 1998, the following adjusting entry was made to accrue interest receivable:

Interest Receivable .................. 1,500
Interest Revenue .................... 1,500

Assuming that the company does NOT use reversing entries, what entry should be made on April 1, 1999 when the annual interest payment is received?

a. Cash ............................ 500
   Interest Revenue .................. 500

b. Cash ............................ 1,500
   Interest Receivable ............... 1,500

b. Cash ............................ 2,000
   Interest Receivable ............... 1,500
   Interest Revenue .................. 500

d. Cash ............................ 2,000
   Interest Revenue .................. 2,000

2. The following information is available for Ball Company:

Payment for goods during 1999 $72,000
Accounts payable, January 1, 1999 9,000
Inventory, January 1, 1999 10,400
Accounts payable, December 31, 1999 7,200
Inventory, December 31, 1999 9,700

Cost of goods sold for 1999 is
a. $69,500.
b. $70,900.
c. $77,100.
d. $78,500.
3. On June 1, 1998, Lowe Corp. loaned Ellis $400,000 on a 12% note, payable in five annual installments of $80,000 beginning January 2, 1999. In connection with this loan, Ellis was required to deposit $5,000 in a noninterest-bearing escrow account. The amount held in escrow is to be returned to Ellis after all principal and interest payments have been made. Interest on the note is payable on the first day of each month beginning July 1, 1998. Ellis made timely payments through November 1, 1998. On January 2, 1999, Lowe received payment of the first principal installment plus all interest due. At December 31, 1998, Lowe's interest receivable on the loan to Ellis should be
   a. $0.
   b. $4,000.
   c. $8,000.
   d. $12,000.

4. Ace Corp.'s liability account balances at June 30, 1999 included a 10% note payable in the amount of $1,200,000. The note is dated October 1, 1997 and is payable in three equal annual payments of $400,000 plus interest. The first interest and principal payment was made on October 1, 1998. In Ace's June 30, 1999 balance sheet, what amount should be reported as accrued interest payable for this note?
   a. $90,000.
   b. $60,000.
   c. $30,000.
   d. $20,000.

5. If the inventory account at the end of the year is understated, the effect will be to
   a. overstate the gross profit on sales.
   b. understate the net purchases.
   c. overstate the cost of goods sold.
   d. overstate the goods available for sale.

6. A trial balance may prove that debits and credits are equal, but
   a. an amount could be entered in the wrong account.
   b. a transaction could have been entered twice.
   c. a transaction could have been omitted.
   d. all of these.

7. A prepaid expense can best be described as an amount
   a. paid and currently matched with revenues.
   b. paid and not currently matched with revenues.
   c. not paid and currently matched with revenues.
   d. not paid and not currently matched with revenues.

8. An accounting record into which the essential facts and figures in connection with all transactions are initially recorded is called the
   a. ledger.
   b. account.
   c. trial balance.
   d. none of these.
9. In November and December 1998, Kay Co., a newly organized magazine publisher received $90,000 for 1,000 three-year subscriptions at $30 per year, starting with the January 1999 issue. Kay included the entire $90,000 in its 1998 income tax return. What amount should Kay report in its 1998 income statement for subscriptions revenue? 
   a. $0.  
   b. $5,000.  
   c. $30,000.  
   d. $90,000.  

10. Carey Co. sells major household appliance service contracts for cash. The service contracts are for a one-year, two-year, or three-year period. Cash receipts from contracts are credited to Unearned Service Revenues. This account had a balance of $600,000 at December 31, 1998 before year-end adjustment. Service contract costs are charged as incurred to the Service Contract Expense account, which had a balance of $150,000 at December 31, 1998. Service contracts still outstanding at December 31, 1998 expire as follows: 
   
<table>
<thead>
<tr>
<th>Year</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>During 1999</td>
<td>$125,000</td>
</tr>
<tr>
<td>During 2000</td>
<td>190,000</td>
</tr>
<tr>
<td>During 2001</td>
<td>85,000</td>
</tr>
</tbody>
</table>
   
   What amount should be reported as Unearned Service Revenues in Carey's December 31, 1998 balance sheet? 
   a. $450,000.  
   b. $400,000.  
   c. $250,000.  
   d. $200,000.  

11. Which of the following would NOT be a correct form for an adjusting entry? 
   a. A debit to a revenue and a credit to a liability  
   b. A debit to an expense and a credit to a liability  
   c. A debit to a liability and a credit to a revenue  
   d. A debit to an asset and a credit to a liability  

12. The Lake Company's account balances at December 31, 1998 for Accounts Receivable and the Allowance for Doubtful Accounts are $640,000 debit and $1,200 credit. Sales during 1998 were $1,800,000. It is estimated that 1% of sales will be uncollectible. The adjusting entry would include a credit to the allowance account for 
   a. $19,200.  
   b. $18,000.  
   c. $16,800.  
   d. $6,400.  

13. Garcia Corporation received cash of $9,000 on August 1, 1998 for one year's rent in advance and recorded the transaction with a credit to Rent Revenue. The December 31, 1998 adjusting entry is 
   a. debit Rent Revenue and credit Unearned Rent, $3,750.  
   b. debit Rent Revenue and credit Unearned Rent, $5,250.  
   c. debit Unearned Rent and credit Rent Revenue, $3,750.  
   d. debit Cash and credit Unearned Rent, $5,250.
14. At December 31, 1999, Rose Boutique had 1,000 gift certificates outstanding, which had been sold to customers during 1999 for $60 each. Rose operates on a gross margin of 60% of its sales. What amount of revenue pertaining to the 1,000 outstanding gift certificates should be deferred at December 31, 1999?
   a. $0.
   b. $24,000.
   c. $36,000.
   d. $60,000.

15. If, during an accounting period, an expense item has been incurred and consumed but not yet paid for or recorded, then the end-of-period adjusting entry would involve
   a. a liability account and an asset account.
   b. an asset or contra-asset and an expense account.
   c. a liability account and an expense account.
   d. a receivable account and a revenue account.

16. Factors that shape an accounting information system include the
   a. nature of the business.
   b. size of the firm.
   c. volume of data to be handled.
   d. all of these.

17. Tate Company purchased equipment on November 1, 1998 and gave a 3-month, 9% note with a face value of $20,000. The December 31, 1998 adjusting entry is
   a. debit Interest Expense and credit Interest Payable, $1,800.
   b. debit Interest Expense and credit Interest Payable, $450.
   c. debit Interest Expense and credit Cash, $300.
   d. debit Interest Expense and credit Interest Payable, $300.

18. Bell Co. pays all salaried employees on a biweekly basis. Overtime pay, however, is paid in the next biweekly period. Bell accrues salaries expense only at its December 31 year end. Data relating to salaries earned in December 1999 are as follows:

   - Last payroll was paid on 12/26/99, for the 2-week period ended 12/26/99.
   - Overtime pay earned in the 2-week period ended 12/26/99 was $5,000.
   - Remaining work days in 1999 were December 29, 30, 31, on which days there was no overtime.
   - The recurring biweekly salaries total $90,000.

   Assuming a five-day work week, Bell should record a liability at December 31, 1999 for accrued salaries of
   a. $27,000.
   b. $32,000.
   c. $54,000.
   d. $59,000.
19. Which of the following is a real (permanent) account?
   a. Goodwill
   b. Sales
   c. Accounts Receivable
   d. Both Goodwill and Accounts Receivable

20. Wynn Corp.'s trademark was licensed to Best Co. for royalties of 15% of sales of the trademarked items. Royalties are payable semiannually on March 15 for sales in July through December of the prior year, and on September 15 for sales in January through June of the same year. Wynn received the following royalties from Best:

<table>
<thead>
<tr>
<th>Month</th>
<th>Royalty</th>
</tr>
</thead>
<tbody>
<tr>
<td>March 15</td>
<td>$5,000</td>
</tr>
<tr>
<td>September 15</td>
<td>$7,500</td>
</tr>
<tr>
<td>1998</td>
<td>6,000</td>
</tr>
<tr>
<td>1999</td>
<td>8,500</td>
</tr>
</tbody>
</table>

Best estimated that sales of the trademarked items would total $40,000 for July through December 1999. In Wynn's 1999 income statement, the royalty revenue should be
   a. $14,500.
   b. $16,000.
   c. $20,500.
   d. $22,000.

21. Which of the following is a recordable event or item?
   a. Changes in managerial policy
   b. The value of human resources
   c. Changes in personnel
   d. None of these

22. Ross Corporation loaned $30,000 to another corporation on December 1, 1998 and received a 3-month, 8% interest-bearing note with a face value of $30,000. What adjusting entry should Ross make on December 31, 1998?
   a. Debit Interest Receivable and credit Interest Revenue, $800.
   b. Debit Cash and credit Interest Revenue, $200.
   c. Debit Interest Receivable and credit Interest Revenue, $200.
   d. Debit Cash and credit Interest Receivable, $800.

23. An unearned revenue can best be described as an amount
   a. collected and currently matched with expenses.
   b. collected and not currently matched with expenses.
   c. not collected and currently matched with expenses.
   d. not collected and not currently matched with expenses.

24. Compared to the accrual basis of accounting, the cash basis of accounting overstates income by the net increase during the accounting period of the
   a. Accounts Receivable
   b. Accrued Expenses Payable

<table>
<thead>
<tr>
<th>Accounts Receivable</th>
<th>Accrued Expenses Payable</th>
</tr>
</thead>
<tbody>
<tr>
<td>No</td>
<td>No</td>
</tr>
<tr>
<td>b. No</td>
<td>Yes</td>
</tr>
<tr>
<td>c. Yes</td>
<td>No</td>
</tr>
<tr>
<td>d. Yes</td>
<td>Yes</td>
</tr>
</tbody>
</table>
25. The debit and credit analysis of a transaction normally takes place
   a. before an entry is recorded in a journal.
   b. when the entry is posted to the ledger.
   c. when the trial balance is prepared.
   d. at some other point in the accounting cycle.

26. The King Company's account balances at December 31, 1998 for
   Accounts Receivable and the related Allowance for Doubtful Accounts
   are $460,000 debit and $700 credit, respectively. From an aging of
   accounts receivable, it is estimated that $12,500 of the December 31
   receivables will be uncollectible. The necessary adjusting entry
   would include a credit to the allowance account for
   a. $12,500.
   b. $13,200.
   c. $11,800.
   d. $700.

27. Lopez Company received $4,800 on April 1, 1998 for one year's rent
   in advance and recorded the transaction with a credit to a nominal
   account. The December 31, 1998 adjusting entry is
   a. debit Rent Revenue and credit Unearned Rent, $1,200.
   b. debit Rent Revenue and credit Unearned Rent, $3,600.
   c. debit Unearned Rent and credit Rent Revenue, $1,200.
   d. debit Unearned Rent and credit Rent Revenue, $3,600.

28. Beaty Company paid $3,600 on June 1, 1998 for a two-year insurance
   policy and recorded the entire amount as Insurance Expense. The
   December 31, 1998 adjusting entry is
   a. debit Insurance Expense and credit Prepaid Insurance, $1,050.
   b. debit Insurance Expense and credit Prepaid Insurance, $2,550.
   c. debit Prepaid Insurance and credit Insurance Expense, $1,050
   d. debit Prepaid Insurance and credit Insurance Expense, $2,550.

29. Adjusting entries are necessary to
   1. obtain a proper matching of revenue and expense.
   2. achieve an accurate statement of assets and equities.
   3. adjust assets and liabilities to their fair market value.
   a. 1
   b. 2
   c. 3
   d. 1 and 2

30. On September 1, 1998, Catt Co. issued a note payable to National
   Bank in the amount of $600,000, bearing interest at 12%, and payable
   in three equal annual principal payments of $200,000. On this date,
   the bank's prime rate was 11%. The first payment for interest and
   principal was made on September 1, 1999. At December 31, 1999, Catt
   should record accrued interest payable of
   a. $24,000.
   b. $22,000.
   c. $16,000.
   d. $14,667.