Quiz Questions for Chapter 9

1. A truck was purchased for $25,000. It has a six-year life and a $4,000 salvage value. Using straight-line depreciation, what is the asset's carrying value (book value) after 2 1/2 years?
   a. $8,750.
   b. $12,250.
   c. $14,583.
   d. $16,250.

2. On January 1, 2003, Superior Landscaping Company paid $17,000 to buy a stump grinder. If Superior uses the grinder to remove 2,500 stumps per year, it would have an estimated useful life of 10 years and a salvage value of $4,500. The amount of depreciation expense for the year 2003, using units-of-production depreciation and assuming that 3,500 stumps were removed, is
   a. $2,380.
   b. $1,750.
   c. $1,700.
   d. $1,250.

3. The sale for $2,000 of equipment that cost $8,000 and has accumulated depreciation of $6,700 would result in a
   a. gain of $2,000.
   b. gain of $700.
   c. loss of $700.
   d. loss of $1,300.

4. Underestimating the number of tons of a mineral that can be mined over a mineral deposit’s life will result in
   a. overstated net income each year.
   b. overstated total assets each year.
   c. overstated depletion expense each year.
   d. no effect on total assets each year.

5. A copyright is obtained for what becomes a very successful book. The publisher expects the book to generate sales for 10 years. The copyright should be amortized over
   a. 2 to 4 years.
   b. 10 years.
   c. 40 years.
   d. the author’s life plus 50 years.

The following information pertains to the next two questions. Z Company purchased an asset for $24,000 on January 1, 2004. The asset was expected to have a four-year life and a $4,000 salvage value.

6. The amount of depreciation expense for 2006 using double-declining-balance would be
   a. $2,000.
   b. $3,000.
   c. $6,000.
   d. $12,000.

7. Assume that Z Company uses straight-line depreciation. If on January 1, 2007, Z Company sells the asset for $10,000, the statement of cash flows would report a
   a. $1,000 cash inflow from gain on the sale of the asset in the operating activities section.
   b. $10,000 cash inflow from an asset disposal in the investing activities section.
   c. $9,000 cash inflow from an asset disposal in the financing activities section.
   d. a and c.
8. On January 1, 2006, Fulsom Corporation purchased a machine for $50,000. Fulsom paid shipping expenses of $500 as well as installation costs of $1,200. Fulsom estimated the machine would have a useful life of ten years and an estimated salvage value of $3,000. If Fulsom records depreciation using the straight-line method, depreciation expense for 2007 is.
   a. $4,870.
   b. $5,170.
   c. $5,270.
   d. $5,570.

9. Hickory Ridge Company purchased land and a building for $920,000. The individual assets were appraised at the following market values:
   Land $614,400
   Building $345,600
Recording the land in the accounting records would
   a. increase land by $588,800.
   b. increase land by $614,400.
   c. increase assets by $920,000.
   d. Both a and c.

10 Penny Lane and Associates purchased a generator on January 1, 2006, for $6,300. The generator was estimated to have a five-year life and a salvage value of $600. At the beginning of 2008, the company revised the expected life of the asset to six years and revised the salvage value to $300. Using straight-line depreciation, the depreciation expense recorded in 2008 would
   a. decrease assets and equity by $1,140.
   b. decrease assets and equity by $930.
   c. decrease assets and equity by $1,005.
   d. decrease assets and equity by $1,500.

11 Which of the following statements about goodwill is true?
   a. The amount of goodwill is measured by subtracting the amount paid for assets from their fair market value on the purchase date.
   b. The amount of goodwill is recorded as an asset.
   c. Recording impairment of goodwill reduces the amount of net income.
   d. All of the above.

12 XYZ Company paid cash for a capital expenditure that improved the operating efficiency of one of its assets. Which of the following reflects how this expenditure affects the company’s financial statements?

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<td>n/a n/a n/a</td>
<td>− IA</td>
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<tr>
<td>b. + − n/a n/a</td>
<td>n/a n/a n/a</td>
<td>n/a</td>
</tr>
<tr>
<td>c. − n/a − n/a</td>
<td>n/a + −</td>
<td>− OA</td>
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<tr>
<td>d. n/a n/a n/a</td>
<td>n/a n/a n/a</td>
<td>n/a</td>
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13 KLM Company experienced an accounting event that affected its financial statements as indicated below:

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<tbody>
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<td>n/a + −</td>
<td>− OA</td>
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</tbody>
</table>

Which of the following events could have caused these effects?
   a. recognizing depreciation.
   b. paying cash for a capital expenditure.
   c. amortizing a patent.
   d. none of the above.
14. Which of the following correctly matches the type of long-term asset with the term used to identify how that asset's cost is expensed?

<table>
<thead>
<tr>
<th>Building</th>
<th>Oil Reserve</th>
<th>Copyright</th>
</tr>
</thead>
<tbody>
<tr>
<td>a. Amortization</td>
<td>Depreciation</td>
<td>Depletion</td>
</tr>
<tr>
<td>b. Depletion</td>
<td>Amortization</td>
<td>Depletion</td>
</tr>
<tr>
<td>c. Amortization</td>
<td>Depletion</td>
<td>Depreciation</td>
</tr>
<tr>
<td>d. Depreciation</td>
<td>Depletion</td>
<td>Amortization</td>
</tr>
</tbody>
</table>

15. Which of the following is true?
   a. The book value of an asset is its estimated market value.
   b. The primary purpose of recording depreciation expense on the income statement is to reduce income tax expense.
   c. Recording depreciation expense decreases the book value of the asset in the year it was used to produce revenue.
   d. The accumulated depreciation for an asset provides the cash needed to replace the asset at the end of its useful life.

**Quiz Questions for Chapter 10**

The following information pertains to the next seven questions. On January 1, 2003, XYZ Corporation issued a $5,000 face value bond that sold for 90. The bond had a five-year term and paid 10 percent annual interest. The company used the proceeds from the bond issue to buy land. The land was leased for $600 of cash revenue per year and was sold at the end of the 5th year for $4,200 cash.

1. The carrying value of the bond liability on January 1, 2003, would be
   a. $4,600.
   b. $4,500.
   c. $5,000.
   d. $4,000.

2. The amount of interest expense reported on the 2003 income statement would be
   a. $450.
   b. $400.
   c. $500.
   d. $600.

3. Interest expense reported on the income statement over the life of the bond would
   a. increase by $100 each year.
   b. decrease by $100 each year.
   c. be the same each year.
   d. equal the stated rate of interest.

4. The carrying value of the bond liability on December 31, 2007 would be
   a. $4,500.
   b. $5,000.
   c. $4,900.
   d. $4,600.

5. The sale of the land on December 31, 2007, would
   a. increase retained earnings by $300.
   b. increase equity by $4,200.
   c. reduce net income by $300.
   d. have no effect on retained earnings.
6. The total amount of liability associated with the bond issue would
   a. increase each year as a result of the amortization of the discount.
   b. decrease each year as a result of the amortization of the discount.
   c. remain the same each year.
   d. always be equal to the face value of the bond payable.

7. The amount of the cash outflow for interest expense in 2005 would be
   a. $600.
   b. $400.
   c. $500.
   d. $0.

Use the following information to answer the next three questions. On January 1, 2003, Keynes Company issued a $20,000 face value bond that sold for 110. The bond had a ten-year term and a stated annual interest rate of 8 percent.

8. The carrying value of the bond liability on January 1, 2003, would be
   a. $20,000.
   b. $22,000.
   c. $21,800.
   d. $20,200.

9. The amount of interest expense reported on the company’s 2003 income statement would be
   a. $1,200.
   b. $1,400.
   c. $1,600.
   d. $1,050.

10. The amount of interest expense reported on the company’s 2004 income statement would be
    a. $1,400.
    b. $1,600.
    c. $1,800.
    d. $2,000.

11. If a bond sells at a discount, which of the following is true?
    a. The market interest rate at the time of issue is greater than the stated interest rate on the bond.
    b. The market interest rate at the time of issue is less than the stated interest rate on the bond.
    c. The market interest rate at the time of issue is the same as the stated interest rate on the bond issue.
    d. The market interest rate is expected to increase above the stated interest rate on the bond.

12. On January 1, 2003, Ink, Inc. borrowed $100,000 cash from the Fidelity Bank on a note that had a 6 percent annual interest rate and a five-year term. The loan is to be repaid in annual payments of $23,741.69 on January 1 each year. The amount of the January 1, 2004, payment applied to interest and to principal would be
    a. $6,000 / $94,000.
    b. $17,741.69 / $94,000.
    c. $4,935.50 / $82,258.31.
    d. $6,000 / $17,741.69.

13. Indigo Company can borrow up to $50,000 on its line of credit at the state bank. The company agrees to pay interest monthly at 2 percent above prime. Funds are borrowed or repaid on the first day of each month.

<table>
<thead>
<tr>
<th>Month</th>
<th>Amounts Borrowed or (Repaid)</th>
<th>Prime Rate</th>
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<tbody>
<tr>
<td>Jan.</td>
<td>$15,000</td>
<td>6 percent</td>
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<tr>
<td>Feb.</td>
<td>$(5,000)</td>
<td>5 percent</td>
</tr>
<tr>
<td>March</td>
<td>$30,000</td>
<td>4 percent</td>
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</table>

The amount of interest to be accrued on the March 31 is
    a. $225.00.
    b. $100.00.
    c. $133.33.
    d. $200.00.
14. XYZ Company experienced an accounting event that affected its financial statements as indicated below:

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<td>+ FA</td>
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Which of the following events could have caused these effects?

a. A bond issued at face value.
b. A bond issued at a discount.
c. A bond issued at a premium.
d. All of the above.

15. A bond will sell at a premium if:

a. The market rate of interest is equal to the bond’s stated rate.
b. The market rate of interest is greater than the bond’s stated rate.
c. The market rate of interest is less than the bond’s stated rate.
d. The bond is convertible into common stock.

**Quiz Questions for Chapter 11**

1. The ZZ Corporation had the following shares of stock outstanding at December 31, 2003: Common Stock, $50 par value, 40,000 shares outstanding; and Preferred Stock, 6 percent, $100 par value, cumulative, 10,000 shares outstanding. Dividends for 2001 and 2002 were in arrears. On December 31, 2003, ZZ declared total cash dividends of $250,000. The total amounts payable to preferred stockholders and common stockholders, respectively, are:

a. $60,000 / $190,000.
b. $120,000 / $130,000.
c. $125,000 / $125,000.
d. $180,000 / $70,000.

**Use the following information to answer the next four questions.** The Kramer Company was started when it issued 200 shares of $5 par value common stock at a market price of $20 per share. The company repurchased 10 shares at a market price of $15 per share. Later the company reissued 5 shares at a market price of $20 per share. At the end of the first year of operations the company’s equity included $1,200 of retained earnings in addition to its contributed capital.

2. The entry to record the original issue of 200 shares of stock would

a. increase cash by $4,000 / increase common stock by $4,000.
b. increase cash by $4,000 / increase common stock and paid-in capital in excess of par value by $1,000 and $3,000, respectively.
c. decrease cash by $4,000 / increase common stock common stock by $4,000.
d. increase cash by $1,000 / increase common stock by $1,000.

3. The entry to record the purchase of the 10 shares of the company’s own stock would

a. decrease assets / decrease equity.
b. decrease assets / increase equity.
c. decrease assets / increase treasury stock.
d. both a and c.

4. What effect would reissuing the 5 shares have on the company’s paid-in capital from treasury stock transactions account?

a. No effect.
b. Increase additional paid-in capital by $100.
c. Increase additional paid-in capital by $25.
d. Decrease additional paid-in capital by $75.

5. The total amount of stockholders’ equity at the end of the first year would be

a. $5,150.
b. $5,200.
c. $1,200.
d. none of the above.
6. Which of the following is an advantage of the corporate form of business organization?
   a. double taxation.
   b. amount of regulation.
   c. limited liability.
   d. entrenched management.

7. Jan Irving started a proprietorship on January 1, 2007 with a $1,000 cash contribution to the business. During the first year of operations the company generated $5,000 of cash revenue and incurred $2,000 of cash expenses. Also, Jan withdrew $500 from the business. At the end of 2007 the balance in the Jan Irving, Capital account was
   a. $1,000.
   b. $3,000.
   c. $3,500.
   d. $4,000.

8. ABC Company is authorized to issue 100,000 shares of common stock. The company issued 60,000 shares of common stock and later repurchased 15,000 shares of its own common stock. How many shares are outstanding?
   a. 60,000.
   b. 45,000.
   c. 100,000.
   d. 40,000.

9. An 8 percent stock dividend on 12,000 shares of outstanding preferred stock with a par value of $20 per share and a market value of $60 a share will have what effect on the accounting equation?
   a. Increase preferred stock by $57,600.
   b. Increase cash by $38,400.
   c. Decrease retained earnings by $19,200.
   d. Decrease retained earnings by $57,600.

10. Which of the following statements concerning a two-for-one stock split is true?
    a. The number of shares outstanding will decrease.
    b. The market price of the stock would be expected to increase.
    c. The company’s equity will increase.
    d. No journal entry would be necessary.

11. EFG Company paid cash to purchase treasury stock. Which of the following reflects how this event affects the company’s financial statements?

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12. ZGAR Company distributed a stock dividend. Which of the following reflects how this event affects the company’s financial statements?

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Quiz for Chapter 12

1. Which of the following cash transactions is classified as an investing activity on the statement of cash flows?
   a. Cash borrowed.
   b. Cash received from issuing stock.
   c. Cash received from revenue.
   d. Cash collected on a loan.

2. A building costing $55,000 with $16,500 of accumulated depreciation was sold for $40,000. How would the cash flow from the sale appear on the statement of cash flows?
   a. $1,500 in operating activities and $38,500 in investing activities.
   b. $40,000 in financing activities.
   c. $38,500 noncash financing and investing activities and $1,500 in operating activities.
   d. $40,000 in investing activities.

3. The owners of X Company invested $2,000 in the company. X Company used the cash to invest in Y Company. On X’s statement of cash flows these transactions would be classified, respectively, as
   a. an investing activity and an investing activity.
   b. a financing activity and a financing activity.
   c. an investing activity and a financing activity.
   d. a financing activity and an investing activity.

4. Issuing a note for the purchase of land is an example of
   a. an investing activity.
   b. a financing activity.
   c. a noncash investing and financing activity.
   d. a transaction that would not appear on the statement of cash flows.

5. The sum of the three major components (operating activities, investing activities, and financing activities) on a statement of cash flows will add up to
   a. the ending cash balance.
   b. the change in the cash account balance between the beginning and ending of the period.
   c. the amount of cash inflow for the period.
   d. net income for the period.

Answers:
Chapter 9: D, B, B, C, B, A, B, A, D, B, D, A, D, D, C
Chapter 11: D, B, D, C, A, C, C, B, D, D, A, B
Chapter 12: D, D, D, C, B