

10 - 12 Test Bank for Accounting Principles, Tenth Edition

Hull Company acquires land for \$96,000 cash. Additional costs are as follows:

Removal of shed	\$ 300
Filling and grading	1,500
Salvage value of lumber of shed	120
Broker commission	1,130
Paving of parking lot	10,000
Closing costs	560

Hull will record the acquisition cost of the land as

- a. \$86,000.
- b. \$97,690.
- c. \$99,610.
- d. \$99,370.

SO: 1, Bloom: AP, Difficulty: Medium, Min: 3, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Measurement, AICPA PC: Problem Solving, IMA: FSA

Wesley Hospital installs a new parking lot. The paving cost \$40,000 and the lights to illuminate the new parking area cost \$20,000. Which of the following statements is true with respect to these additions?

- a. \$40,000 should be debited to the Land account.
- b. \$20,000 should be debited to Land Improvements.
- c. \$60,000 should be debited to the Land account.
- d. \$60,000 should be debited to Land Improvements.

SO: 1, Bloom: AP, Difficulty: Medium, Min: 2, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Measurement, AICPA PC: Problem Solving, IMA: FSA

Land improvements should be depreciated over the useful life of the

- a. land.
- b. buildings on the land.
- c. land or land improvements, whichever is longer.
- d. land improvements.

SO: 1, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None IMA: Business Economics

Mattox Company is building a new plant that will take three years to construct. The construction will be financed in part by funds borrowed during the construction period. There are significant architect fees, excavation fees, and building permit fees. Which of the following statements is true?

- a. Excavation fees are capitalized but building permit fees are not.
- b. Architect fees are capitalized but building permit fees are not.
- c. Interest is capitalized during the construction as part of the cost of the building.
- d. The capitalized cost is equal to the contract price to build the plant less any interest on borrowed funds.

SO: 1, Bloom: C, Difficulty: Easy, Min: 2, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Measurement, AICPA PC: None IMA: Business Economics

5. A company purchases a remote site building for computer operations. The building will be suitable for operations after some expenditures. The wiring must be replaced to computer specifications. The roof is leaky and must be replaced. All rooms must be repainted and recarpeted and there will also be some plumbing work done. Which of the following statements is true?

- The cost of the building will not include the repainting and recarpeting costs.
- The cost of the building will include the cost of replacing the roof.
- The cost of the building is the purchase price of the building, while the additional expenditures are all capitalized as Building Improvements.
- The wiring is part of the computer costs, not the building cost.

SO: 1, Bloom: C, Difficulty: Easy, Min: 2, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Measurement, AICPA PC: None, IMA: Business Economics

6. Engler Company purchases a new delivery truck for \$60,000. The sales taxes are \$4,000. The logo of the company is painted on the side of the truck for \$1,600. The truck license is \$160. The truck undergoes safety testing for \$290. What does Engler record as the cost of the new truck?

- \$66,050
- \$65,890
- \$64,000
- \$65,600

SO: 1, Bloom: AP, Difficulty: Medium, Min: 3, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Measurement, AICPA PC: Problem Solving, IMA: FSA

All of the following factors in computing depreciation are estimates *except*

- 7.
- cost.
 - residual value.
 - salvage value.
 - useful life.

SO: 1, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Measurement, AICPA PC: None, IMA: Business Economics

Presto Company purchased equipment and these costs were incurred:

8.

Cash price	\$45,000
Sales taxes	3,600
Insurance during transit	640
Installation and testing	860
Total costs	<u>\$50,100</u>

Presto will record the acquisition cost of the equipment as

- \$45,000.
- \$48,600.
- \$49,240.
- \$50,100.

J: 1, Bloom: C, Difficulty: Medium, Min: 2, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Measurement, AICPA PC: Problem Solving, IMA: FSA

10 - 16 Test Bank for Accounting Principles, Tenth Edition

When estimating the useful life of an asset, accountants do not consider

- 9.
- a. the cost to replace the asset at the end of its useful life.
 - b. obsolescence factors.
 - c. expected repairs and maintenance.
 - d. the intended use of the asset.

SO: 2, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Measurement, AICPA PC: None, IMA: Business Economics

Useful life is expressed in terms of use expected from the asset under the

- 10.
- a. declining-balance method.
 - b. straight-line method.
 - c. units-of-activity method.
 - d. none of these.

SO: 3, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

11. Equipment was purchased for \$150,000. Freight charges amounted to \$7,000 and there was a cost of \$20,000 for building a foundation and installing the equipment. It is estimated that the equipment will have a \$30,000 salvage value at the end of its 5-year useful life. Depreciation expense each year using the straight-line method will be

- a. \$35,400.
- b. \$29,400.
- c. \$24,600.
- d. \$24,000.

SO: 3, Bloom: AP, Difficulty: Medium, Min: 3, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: Problem Solving, IMA: Reporting

12. A truck was purchased for \$120,000 and it was estimated to have a \$24,000 salvage value at the end of its useful life. Monthly depreciation expense of \$2,000 was recorded using the straight-line method. The annual depreciation rate is

- a. 20%.
- b. 2%.
- c. 8%.
- d. 25%.

SO: 3, Bloom: AP, Difficulty: Medium, Min: 3, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: Problem Solving, IMA: Reporting

13. A company purchased factory equipment on April 1, 2012 for \$80,000. It is estimated that the equipment will have an \$10,000 salvage value at the end of its 10-year useful life. Using the straight-line method of depreciation, the amount to be recorded as depreciation expense at December 31, 2012 is

- a. \$8,000.
- b. \$7,000.
- c. \$5,250.
- d. \$6,000.

SO: 3, Bloom: AP, Difficulty: Medium, Min: 3, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Measurement, AICPA PC: Problem Solving, IMA: FSA

14. A company purchased office equipment for \$40,000 and estimated a salvage value of \$8,000 at the end of its 4-year useful life. The constant percentage to be applied against book value each year if the double-declining-balance method is used is
- 20%.
 - 25%.
 - 50%.
 - 5%.

SO: 3, Bloom: AP, Difficulty: Medium, Min: 2, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Measurement, AICPA PC: Problem Solving, IMA: Business Economics

15. The declining-balance method of depreciation produces
- a decreasing depreciation expense each period.
 - an increasing depreciation expense each period.
 - a declining percentage rate each period.
 - a constant amount of depreciation expense each period.

SO: 3, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Measurement, AICPA PC: None, IMA: Business Economics

16. A company purchased factory equipment for \$350,000. It is estimated that the equipment will have a \$35,000 salvage value at the end of its estimated 5-year useful life. If the company uses the double-declining-balance method of depreciation, the amount of annual depreciation recorded for the second year after purchase would be
- \$140,000.
 - \$84,000.
 - \$126,000.
 - \$60,480.

SO: 3, Bloom: AP, Difficulty: Medium, Min: 3, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Measurement, AICPA PC: Problem Solving, IMA: FSA

17. The units-of-activity method is generally not suitable for
- airplanes.
 - buildings.
 - delivery equipment.
 - factory machinery.

SO: 3, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Measurement, AICPA PC: None, IMA: Business Economics

18. A plant asset cost \$192,000 and is estimated to have an \$24,000 salvage value at the end of its 8-year useful life. The annual depreciation expense recorded for the third year using the double-declining-balance method would be
- \$16,080.
 - \$27,000.
 - \$23,624.
 - \$18,380.

SO: 3, Bloom: AP, Difficulty: Medium, Min: 3, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Measurement, AICPA PC: Problem Solving, IMA: FSA

19. From a liquidity standpoint, it is more desirable for a company to have current
- assets equal current liabilities.
 - liabilities exceed current assets.
 - assets exceed current liabilities.
 - liabilities exceed long-term liabilities.

SO: 1, Bloom: C, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Business Economics

20. The relationship of current assets to current liabilities is used in evaluating a company's
- operating cycle.
 - revenue-producing ability.
 - short-term debt paying ability.
 - long-range solvency.

SO: 1, Bloom: C, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

21. Which of the following is usually *not* an accrued liability?
- Interest payable
 - Wages payable
 - Taxes payable
 - Notes payable

SO: 1, Bloom: C, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Measurement, AICPA PC: None, IMA: Business Economics

22. In most companies, current liabilities are paid within
- one year through the creation of other current liabilities.
 - the operating cycle through the creation of other current liabilities.
 - one year or the operating cycle out of current assets.
 - the operating cycle out of current assets.

SO: 1, Bloom: C, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Business Economics

23. The entry to record the issuance of an interest-bearing note credits Notes Payable for the note's
- maturity value.
 - market value.
 - face value.
 - cash realizable value.

SO: 2, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Measurement, AICPA PC: None, IMA: FSA

24. With an interest-bearing note, the amount of assets received upon issuance of the note is generally
- equal to the note's face value.
 - greater than the note's face value.
 - less than the note's face value.
 - equal to the note's maturity value.

SO: 2, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Measurement, AICPA PC: None, IMA: FSA

25.

Unearned Rent Revenue is

- a contra account to Rent Revenue.
- a revenue account.
- reported as a current liability.
- debited when rent is received in advance.

DO: 3, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

26.

Sales taxes collected by the retailer are recorded as a(n)

- revenue.
- liability.
- expense.
- asset.

DO: 3, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Measurement, AICPA PC: None, IMA: FSA

27.

On September 1, Joe's Painting Service borrows \$100,000 from National Bank on a 12-month, \$100,000, 6% note. What entry must Joe's Painting Service make on December 31 before financial statements are prepared?

- | | | |
|---------------------------|-------|-------|
| a. Interest Payable | 2,000 | |
| Interest Expense | | 2,000 |
| b. Interest Expense | 6,000 | |
| Interest Payable | | 6,000 |
| c. Interest Expense | 2,000 | |
| Interest Payable | | 2,000 |
| d. Interest Expense | 2,000 | |
| Notes Payable | | 2,000 |

SO: 2, Bloom: AN, Difficulty: Medium, Min: 3, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Measurement, AICPA PC: Problem Solving, IMA: FSA

28.

On September 1, Joe's Painting Service borrows \$100,000 from National Bank on a 12-month, \$100,000, 6% note. The entry by Joe's Painting Service to record payment of the note and accrued interest on January 1 is

- | | | |
|------------------------|---------|---------|
| a. Notes Payable | 102,000 | |
| Cash | | 102,000 |
| b. Notes Payable | 100,000 | |
| Interest Payable | 2,000 | |
| Cash | | 102,000 |
| c. Notes Payable | 100,000 | |
| Interest Payable | 6,000 | |
| Cash | | 106,000 |
| d. Notes Payable | 100,000 | |
| Interest Expense | 2,000 | |
| Cash | | 102,000 |

SO: 2, Bloom: AN, Difficulty: Medium, Min: 3, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Measurement, AICPA PC: Problem Solving, IMA: FSA

27-28
number
"Four")

29.

On October 1, 2012, Pennington Company issued an \$80,000, 10%, nine-month interest-bearing note. Assuming interest was accrued in June 30, 2013, the entry to record the payment of the note on July 1, 2013, will include a:

- a. debit to Interest Expense of \$2,000.
- b. credit to Cash of \$80,000
- c. debit to Interest Payable of \$6,000.
- d. debit to Notes Payable of \$86,000.

SO: 2, Bloom: AP, Difficulty: Medium, Min: 2, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Measurement, AICPA PC: Problem Solving, IMA: FSA

30.

Crawford Company has total proceeds (before segregation of sales taxes) from sales of \$4,770. If the sales tax is 6%, the amount to be credited to the account Sales Revenue is:

- a. \$4,770.
- b. \$4,484.
- c. \$5,056.
- d. \$4,500.

SO: 3, Bloom: AP, Difficulty: Medium, Min: 2, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Measurement, AICPA PC: Problem Solving, IMA: FSA

31.

Reliable Insurance Company collected a premium of \$30,000 for a 1-year insurance policy on May 1. What amount should Reliable report as a current liability for Unearned Insurance Revenue at December 31?

- a. \$0.
- b. \$10,000.
- c. \$20,000.
- d. \$30,000.

SO: 3, Bloom: AP, Difficulty: Medium, Min: 2, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: Problem Solving, IMA: Reporting

32.

A company receives \$198, of which \$18 is for sales tax. The journal entry to record the sale would include a

- a. debit to Sales Tax Expense for \$18.
- b. credit to Sales Taxes Payable for \$18.
- c. debit to Sales Revenue for \$198.
- d. debit to Cash for \$180.

SO: 3, Bloom: C, Difficulty: Medium, Min: 2, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Measurement, AICPA PC: Problem Solving, IMA: FSA

33.

A company receives \$348, of which \$28 is for sales tax. The journal entry to record the sale would include a

- a. debit to Sales Tax Expense for \$28.
- b. debit to Sales Taxes Payable for \$28.
- c. debit to Sales Revenue for \$348.
- d. debit to Cash for \$348.

SO: 3, Bloom: C, Difficulty: Medium, Min: 2, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Measurement, AICPA PC: Problem Solving, IMA: FSA

34.

- Most companies involved in interstate commerce are required to compute overtime at
- the worker's regular hourly wage.
 - 1.25 times the worker's regular hourly wage.
 - 1.5 times the worker's regular hourly wage.
 - 2.5 times the worker's regular hourly wage.

JO: 6, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Reporting, AICPA PC: None, IMA: Business Economics

35.

Jan Goll has worked 44 hours this week. She worked in excess of 8 hours each day. Her regular hourly wage is \$18 per hour. What are Jan's gross wages for the week? (The company Jan works for is in compliance with the Fair Labor Standards Act.)

- \$792
- \$828
- \$1,188
- \$864

JO: 6, Bloom: K, Difficulty: Medium, Min: 3, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Measurement, AICPA PC: Problem Solving, IMA: Business Economics

36.

FICA taxes do *not* provide workers with

- life insurance.
- supplemental retirement.
- employment disability.
- medical benefits.

JO: 6, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: None, AICPA PC: None, IMA: None

37.

Employee payroll deductions include each of the following *except*

- federal unemployment taxes.
- federal income taxes.
- FICA taxes.
- insurance, pension plans, and union dues.

JO: 6, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Measurement, AICPA PC: None, IMA: Business Economics

38.

The journal entry to record the payroll for a period will include a credit to Salaries and Wages Payable for the gross

- amount less all payroll deductions.
- amount of all paychecks issued.
- pay less taxes payable.
- pay less voluntary deductions.

JO: 6, Bloom: C, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Measurement, AICPA PC: None, IMA: FSA

39.

The amount of income taxes withheld from employees is dependent on each of the following *except* the

- employee's gross earnings.
- employee's net pay.
- length of the pay period.
- number of allowances claimed by the employee.

JO: 6, Bloom: C, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory Perspective, AICPA FN: None, AICPA PC: None, IMA: Business Economics

11 - 26 Test Bank for Accounting Principles, Tenth Edition

40.

The following totals for the month of April were taken from the payroll register of Kirk Company.

Salaries and wages	\$36,000
FICA taxes withheld	1,650
Income taxes withheld	7,500
Medical insurance deductions	1,350
Federal unemployment taxes	96
State unemployment taxes	648

The journal entry to record the monthly payroll on April 30 would include a

- debit to Salaries and Wages Expense for \$36,000.
- credit to Salaries and Wages Payable for \$36,000.
- debit to Salaries and Wages Payable for \$36,000.
- debit to Salaries and Wages Expense for \$25,500.

LO: 6, Bloom: C, Difficulty: Medium, Min: 4, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Measurement, AICPA PC: Problem Solving, IMA: FSA

41.

The following totals for the month of April were taken from the payroll register of Kirk Company.

Salaries and wages	\$36,000
FICA taxes withheld	1,650
Income taxes withheld	7,500
Medical insurance deductions	1,350
Federal unemployment taxes	96
State unemployment taxes	648

The entry to record the payment of net payroll would include a

- debit to Salaries and Wages Payable for \$24,756.
- debit to Salaries and Wages Payable for \$25,500.
- debit to Salaries and Wages Payable for \$23,850.
- credit to Cash for \$27,150.

LO: 6, Bloom: C, Difficulty: Medium, Min: 4, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Measurement, AICPA PC: Problem Solving, IMA: FSA

42.

The following totals for the month of April were taken from the payroll register of Kirk Company.

Salaries and wages	\$36,000
FICA taxes withheld	1,650
Income taxes withheld	7,500
Medical insurance deductions	1,350
Federal unemployment taxes	96
State unemployment taxes	648

The entry to record accrual of Kirk Company's payroll taxes would include a

- debit to Payroll Tax Expense for \$744.
- debit to Payroll Tax Expense for \$2,394.
- credit to FICA Taxes Payable for \$3,300.
- credit to Payroll Tax Expense for \$744.

LO: 7, Bloom: C, Difficulty: Medium, Min: 4, AACSB: Analytic, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Measurement, AICPA PC: Problem Solving, IMA: FSA

65. Danny and Vicky are forming a partnership. Danny will invest a truck with a book value of \$20,000 and a fair value of \$28,000. Vicky will invest a building with a book value of \$60,000 and a fair value of \$84,000 with a mortgage of \$30,000. At what amount should the building be recorded?

a. \$60,000
b. \$54,000
c. \$84,000
d. \$90,000

SO: 2, Bloom: AP, Difficulty: Medium, Min: 3, AACSB: Analysis, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Measurement, AICPA PC: Problem Solving, IMA: FSA

66. Danny and Vicky are forming a partnership. Danny will invest a truck with a book value of \$20,000 and a fair value of \$28,000. Vicky will invest a building with a book value of \$60,000 and a fair value of \$84,000 with a mortgage of \$30,000. What amount should be recorded in Vicky's capital account?

a. \$60,000
b. \$54,000
c. \$84,000
d. \$28,000

SO: 2, Bloom: AP, Difficulty: Medium, Min: 3, AACSB: Analysis, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Measurement, AICPA PC: Problem Solving, IMA: FSA

67. Danny and Vicky are forming a partnership. Danny will invest a truck with a book value of \$20,000 and a fair value of \$28,000. Vicky will invest a building with a book value of \$60,000 and a fair value of \$84,000 with a mortgage of \$30,000. What amount should be recorded in Danny's capital account?

a. \$60,000
b. \$54,000
c. \$84,000
d. \$28,000

SO: 2, Bloom: AP, Difficulty: Medium, Min: 3, AACSB: Analysis, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Measurement, AICPA PC: Problem Solving, IMA: FSA

68. Rosen and Noble decide to organize a partnership. Rosen invests \$15,000 cash, and Noble contributes \$12,000 cash and equipment having a book value of \$6,000. Choose the entry to record Noble's investment in the partnership assuming the equipment has a fair value of \$9,000.

a. Cash	12,000	
Equipment	6,000	
Noble, Capital		18,000
b. Equipment	6,000	
Noble, Capital		6,000
c. Cash	12,000	
Noble, Capital		12,000
d. Cash	12,000	
Equipment	9,000	
Noble, Capital		21,000

SO: 2, Bloom: AP, Difficulty: Medium, Min: 3, AACSB: Analysis, AICPA BB: Legal/Regulatory Perspective, AICPA FN: Measurement, AICPA PC: Problem Solving, IMA: FSA