1. On March 1, 2015, Martinez Company borrowed $5,000 from North Company. The one-year note carried a 6% rate of interest. Which of the following shows how borrowing the money will affect Martinez’s financial statements on March 1, 2015?

A. 

B. 

C. 

D. 

2. On March 1, 2015, Martinez Company borrowed $5,000 from North Company. The one-year note carried a 6% rate of interest. Which of the following shows how accruing the interest will affect Martinez’s financial statements on December 31, 2015?

A. 

B. 

C. 

D. 

3. On June 1, 2015, Fullerton Company borrowed $10,000 from Citizens’ Bank. The eighteen-month note carried a 9% rate of interest. The amount of interest expense that Fullerton would report in 2015 and 2016, respectively would be

A. $900, and $0.

B. $525, and $825.

C. $525, and $375.

D. $0, and $900.

4. Andover Company experienced an event that had the following effects on its financial statements.



Which of the following events could have caused these effects?

A. Paid cash to settle the principal balance of note payable

B. Paid cash for interest expense

C. Paid cash to settle accrued interest payable

D. Either A or C

5. Washington Company borrowed $12,000 on September 1, 2015. The one-year note carried a 6% rate of interest. The amount of cash outflow for operating activities that Washington would report in 2015 and 2016, respectively would be

A. $720, and $0

B. $240, and $480

C. $0, and $720

D. None of the above. Payment of interest is a financing activity.

6. Yetzer Company sold merchandise for $1,000 on account to customers in a state with a 5% sales tax rate. At the time of the sale, Yetzer would record

A. $1,050 of sales revenue.

B. $50 of sales tax revenue.

C. $1,000 of accounts receivable.

D. $50 of sales tax payable.

7. When a company pays sales tax due to the state taxing authority,

A. equity decreases.

B. liabilities increase.

C. assets decrease.

D. assets are unaffected.

8. Boothe Company has a contingent liability that has been determined to be probable. The amount of the liability can be reasonably estimated. According to GAAP, Boothe Company

A. may choose to report a liability on its balance sheet, but is not required to do so.

B. must report a liability on its balance sheet, but is not permitted to record an expense on its income statement.

C. must disclose the contingent liability in the footnotes to its financial statements, but does not report the event on its balance sheet or income statement.

D. must report a liability on its balance sheet and an expense on its income statement.

9. Mystic Company is located in an area that is particularly susceptible to floods. Mystic has been unable to purchase enough flood insurance to cover the value of all of its assets. Which of the following is true?

A. Mystic Company should record a contingent liability on its balance sheet for the difference between the insurance and the value of its assets.

B. Susceptibility to floods is not considered a contingent liability.

C. Mystic Company should disclose a contingent liability in the footnotes to its financial statements.

D. Mystic Company should only record a contingent liability if it experiences flood damage.

10. Dover Company began 2015 with a $4,000 balance in warranties payable. During the year, Dover paid $2,800 to satisfy warranty claims. During the year, Dover recorded $250,000 in sales. On December 31, 2015, Dover estimated future warranty costs totaling 2% of sales. Based on this information, which of the following is a true statement?

A. Dover will report $5,000 in warranty expense in 2015.

B. Dover will report $2,800 in warranty expense in 2015.

C. Dover will report $5,000 in warranties payable on its December 31, 2015 balance sheet.

D. Dover will reduce revenue by $2,800 in 2015.