ACC 250 — Exam 2

Fall 2026 Chapters 3, 4, 6, 7

First name: _____

Last name: _____

Global ID in CAPITAL LETTERS, one per box

Ex. Y U 1 0 J (start at the left box)

Section

mark one

1. MW 12:30
2. MW 14:00
3. MW 15:30

Read this before you start

- **Time.** The exam lasts **1 hour**. You may leave after the first **30 minutes**. Arriving late does not add time.
- **Closed book.** No notes, textbooks or slides. Put your phone and any other device away.
- **You may use** a **calculator**, a **pencil**, an **eraser** and **scratch paper**.
- **All questions are equally weighted.** Part A: multiple choice, answers A–E. Part B: journal entries, choose the correct account, A–J. Part C: numeric, two-digit answers.
- **Only the answer card is graded.** Mark every answer on the card with a **dark pencil**, one bubble per question, filled completely. Marking two answers counts as wrong. To change an answer, either **erase it completely** or **draw an X** over that bubble, then fill your new answer **clearly and darkly**. Anything you write on this paper is not graded.

  Ex. **M3** (A) (B, crossed out) (C) (D, filled) (E) → B crossed out, D filled: the answer graded is **D**.

  M3 (A) (B, erased) (C) (D, filled) (E) → B erased, D filled: the answer graded is **D**.

- **Fill in your name, Global ID and section on the card.** Your Global ID is the first part of your CMU e-mail address; write it in **CAPITAL letters**, one per box, starting at the left box, as in the example above.
- **Numeric answers.** Round as the question says. **Mark both digits**: if the answer is 7, mark it as **07**.

  Ex. **N1** | **0** | **7** |
  |---|---|
  | ● | 0 |
  | 1 | 1 |
  | 2 | 2 |
  | 3 | 3 |
  | 4 | 4 |
  | 5 | 5 |
  | 6 | 6 |
  | 7 | ● |
  | 8 | 8 |
  | 9 | 9 |

  → the answer 7 is marked **07**: both digits, 0 in the first column and 7 in the second.

- **Hand in** your answer card when you leave.

Do not turn this page until you are told to begin.

Part A: Multiple choice (M1–M18)

M1. Which statement about recognizing revenue is NOT correct?

A. Revenue can be recognized together with an increase in Deferred Revenue.
B. Revenue can be recognized together with an increase in Cash.
C. Revenue can be recognized together with an increase in Accounts Receivable.
D. Revenue can be recognized in a period in which no cash is received.
E. None of the above.

M2. A company receives $5,000 cash from a bank loan during the quarter. This $5,000 is

A. revenue, because cash came into the business.
B. revenue, but only in the period the loan is repaid.
C. an expense, because the loan must eventually be repaid.
D. not revenue, because nothing was sold or delivered to a customer.
E. contributed capital, because it came from outside the company.

M3. Once a period's net income has been taken to the balance sheet through Retained Earnings, which accounts start the next period at a zero balance?

A. Asset, liability, and stockholders' equity accounts
B. Revenue, expense, and Retained Earnings accounts
C. Every account in the ledger
D. None; every account carries its balance forward
E. Revenue and expense accounts

M4. Under the matching principle, **which question decides the period in which an expense is recognized?**

A. In which period was the cash paid?
B. In which period was the supplier's invoice received?
C. In which period was the resource used up to generate revenue?
D. In which period was the purchase order signed?
E. In which period was the resource delivered to the company?

M5. What is depreciation?

A. The decline in the market value of an asset during the year.
B. The cash set aside each year to replace an asset when it wears out.
C. The cost of repairing and maintaining an asset each year.
D. The process of recording an expenditure as an asset rather than an expense.
E. The process of allocating the cost of a long-term tangible asset over its useful life.

M6. The carrying value (book value) of equipment reported on the balance sheet equals which of the following?

A. Its acquisition cost.
B. Its acquisition cost less accumulated depreciation.
C. Its acquisition cost less the current year's depreciation expense.
D. Its current market value.
E. Its accumulated depreciation.

M7. Accumulated Depreciation is a contra asset account (xA). **Which statement about it is correct?**

A. It is increased with a credit and reported on the balance sheet.
B. It is increased with a debit, like every other account in the asset section.
C. It is increased with a debit and reported on the income statement.
D. It is increased with a credit and reported on the income statement.
E. It is decreased each year as depreciation is recorded.

M8. A deferral adjustment is needed when

A. a transaction was recorded in the wrong account.
B. revenue has been earned or an expense incurred, but no cash has changed hands yet.
C. the trial balance does not balance.
D. the company has not yet received the supplier's invoice.
E. cash has already changed hands and the revenue or expense must now be recognized.

M9. A sporting goods store buys tennis rackets to resell to customers and printer paper for its own office. **Which statement is correct?**

A. The rackets are Inventory until they are sold; the paper is Supplies until it is used.
B. The rackets are Supplies until they are used; the paper is Inventory until it is sold.
C. Both are recorded as Inventory, because both were bought from suppliers.
D. Both are recorded as expenses when they are bought.
E. The rackets are recorded as Cost of Goods Sold when they are bought; the paper is recorded as Supplies.

M10. On March 3 a company bought $8,000 of inventory on account with terms 2/10, n/30. It paid the invoice on March 11. **How much cash did it pay?**

A. $6,400
B. $7,840
C. $7,920
D. $8,000
E. $8,160

M11. A company prepares both a single-step and a multi-step income statement for the same year. **Which amount appears, and is the same, on both?**

A. Gross Profit.
B. Income from Operations.
C. Income before Income Tax.
D. Net Income.
E. None of these; the two statements report different results.

M12. Pinecone Goods reported Sales Revenue of $62,000, Sales Returns and Allowances of $2,000, Cost of Goods Sold of $36,000, and SG&A expenses of $14,000. **What is its gross profit?**

A. $12,000
B. $24,000
C. $26,000
D. $46,000
E. $60,000

M13. Under which inventory system is the inventory equation *required* to determine Cost of Goods Sold?

A. Perpetual, because inventory is updated continuously.
B. Neither system requires it.
C. Both systems require it equally.
D. Perpetual, because Cost of Goods Sold is recorded only at the end of the year.
E. Periodic, because inventory is counted only at period end and Cost of Goods Sold must be inferred.

M14. A retailer buys goods for \$60 each and lists them for sale at \$100 each. **On its balance sheet, each unit still on hand is reported at**

A. \$0
B. \$40
C. \$60
D. \$80
E. \$100

M15. Which statement about managing inventory is correct?

A. Holding more inventory always increases net income, because more goods are available to sell.
B. Damaged or obsolete inventory lowers expenses, because it no longer has to be stored.
C. The amount of inventory a company holds has no effect on its expenses.
D. Holding too little inventory can cause stockouts, which lower revenues.
E. Holding too much inventory lowers expenses, because the goods were bought in bulk.

M16. What does a company's choice of inventory costing method (specific identification, FIFO or LIFO) decide?

A. How the cost of goods available for sale is split between Cost of Goods Sold and Ending Inventory.
B. Which units physically leave the warehouse first.
C. How much cash the company pays its suppliers for inventory.
D. How much the company paid for the goods it had available for sale.
E. Whether the company uses the periodic or the perpetual inventory system.

M17. Two companies are identical except that one uses FIFO and the other LIFO. **Compared with each other, their cash flows from buying and selling inventory are**

A. different, because Cost of Goods Sold differs.
B. the same, because the same units were bought and sold at the same prices.
C. different, because ending inventory differs.
D. the same only if prices are stable.
E. different, because the two methods report different net income.

M18. Specific identification is most appropriate for

A. identical cartons of milk in a supermarket.
B. gasoline in a shared storage tank.
C. cars, jewelry and real estate.
D. any company that wants to minimize taxes.
E. any company that uses the periodic inventory system.

Part B: Journal entries

Walmart (J1–J10)

Walmart uses the perpetual inventory system. It had no bikes in Inventory before transaction 1. **Complete the journal entries by choosing the correct account for each blank.**

Transaction (1) Walmart bought $10,500 of bikes from a supplier on account and received them.

J1		10,500	
J2			10,500

Transaction (2) Walmart paid a trucking company $200 cash to deliver the bikes bought in (1) to its store.

J3		200	
J4			200

Transaction (3) Walmart returned some of the bikes bought in (1) to the supplier. The supplier reduced the amount Walmart owes by $500.

J5		500	
J6			500

Transaction (4) Walmart sold four bikes to customers for $200 each, $800 in total, and received cash. Record the sale.

J7		800	
J8			800

Transaction (5) The four bikes sold in (4) had cost Walmart $175 each, $700 in total. Record their cost.

J9		700	
J10			700

Accounts

A. Accounts Payable
B. Accounts Receivable
C. Cash
D. Cost of Goods Sold
E. Inventory
F. Retained Earnings
G. Sales Revenue
H. Supplies
I. Supplies Expense
J. Transportation Expense

Sky Blue Corporation (J11–J18)

Sky Blue Corporation rents out part of its building. For (c) and (d), record the adjusting entries on October 31, the end of the month. **Complete the journal entries by choosing the correct account for each blank.**

Transaction (a) October 1: collected $2,400 cash from a tenant for three months of rent, October to December.

J11		2,400	
	J12		2,400

Transaction (b) October 1: paid $1,200 cash for two years of insurance.

J13		1,200	
	J14		1,200

Transaction (c) The rent from (a) that was earned in October. Record the adjusting entry on October 31.

J15		800	
	J16		800

Transaction (d) The insurance from (b) that was used up in October. Record the adjusting entry on October 31.

J17		50	
	J18		50

Accounts

A. Accounts Payable
B. Accumulated Depreciation
C. Cash
D. Deferred Revenue
E. Depreciation Expense
F. Equipment
G. Insurance Expense
H. Prepaid Insurance
I. Rent Expense
J. Rent Revenue

Part C: Numeric (N1–N9)

Mark both digits: if the answer is 7, mark it as "07".

N1. A shop that counts its inventory at the end of each month began June with $4,000 of inventory, bought $15,000 more during June, and counted $3,000 on hand at the end of June. **What was its Cost of Goods Sold for June?**

Cost of Goods Sold: $ _____ ,000

N2. Cedar Mill Bakery bought a commercial oven. It paid $24,000 for the oven, $1,500 to have it delivered, and $2,500 to have it installed and tested. During the oven's first month it also paid $600 for the electricity to run it. **At what amount is the oven recorded as an asset?**

Oven: $ _____ ,000

N3. A jeweler had three rings in inventory that cost $400, $550 and $900. It sold the $400 ring and the $900 ring. **Under specific identification, what is its Cost of Goods Sold?**

Cost of Goods Sold: $ _____ 00

N4–N9. A company uses the periodic inventory system. On October 1 it had 10 units in inventory that cost $7 each. It bought 30 units at $8 each on October 3 and 10 units at $10 each on October 5. On October 6 it sold 35 units for $20 each. **Fill in N4–N9.**

N4.	FIFO: Cost of goods available for sale.	$ _____ 0
N5.	FIFO: Cost of Goods Sold.	$ _____ 0
N6.	FIFO: Ending Inventory.	$ _____ 0
N7.	LIFO: Cost of goods available for sale.	$ _____ 0
N8.	LIFO: Cost of Goods Sold.	$ _____ 0
N9.	LIFO: Ending Inventory.	$ _____ 0

Solutions

Answers

Part A

M1	M2	M3	M4	M5	M6	M7	M8	M9	M10
A	**D**	**E**	**C**	**E**	**B**	**A**	**E**	**A**	**B**

M11	M12	M13	M14	M15	M16	M17	M18
D	**B**	**E**	**C**	**D**	**A**	**B**	**C**

Part B

J1	J2	J3	J4	J5	J6	J7	J8	J9	J10
E	**A**	**E**	**C**	**A**	**E**	**C**	**G**	**D**	**E**

J11	J12	J13	J14	J15	J16	J17	J18
C	**D**	**H**	**C**	**D**	**J**	**G**	**H**

Part C

N1	N2	N3	N4	N5	N6	N7	N8	N9
16	**28**	**13**	**41**	**27**	**14**	**41**	**30**	**11**

Part A: Multiple choice

M1. **A.** Revenue can be recognized together with an increase in Deferred Revenue.
Revenue comes with an increase in an asset or a decrease in a liability: Cash for a cash sale, Accounts Receivable for a sale on account. Deferred Revenue increases when a customer pays before delivery; that cash is a liability, not revenue.

M2. **D.** not revenue, because nothing was sold or delivered to a customer.
Borrowing brings in cash but delivers nothing to a customer: the company now owes the money.

M3. **E.** Revenue and expense accounts
Income statement accounts are temporary and are cleared to zero. Balance sheet accounts, Retained Earnings included, are permanent.

M4. **C.** In which period was the resource used up to generate revenue?
Every expenditure raises two separate questions: when is the cash paid, and when is the resource used up? Only the second one fixes the expense. Cash can leave before, after or in the same period, and it changes nothing. Delivery is when an asset is recognized, not an expense.

M5. **E.** The process of allocating the cost of a long-term tangible asset over its useful life.
Depreciation allocates cost; it does not measure value. The cost paid at purchase is spread over the years the asset is used, so each year carries its share. No cash is set aside, and recording an expenditure as an asset is capitalization, the step that comes before depreciation.

M6. **B.** Its acquisition cost less accumulated depreciation.
The asset itself stays at acquisition cost, and everything depreciated so far, accumulated depreciation, is subtracted from it. Subtracting only this year's expense forgets the earlier years.

M7. **A.** It is increased with a credit and reported on the balance sheet.
A contra asset reduces the value of an asset, so it sits in the asset section of the balance sheet but works in the opposite direction: it is credited to increase. Each year's depreciation entry makes it bigger, not smaller.

M8. **E.** cash has already changed hands and the revenue or expense must now be recognized.
In a deferral, the cash came first and was parked in a balance sheet account (Deferred Revenue, Supplies, Prepaid Rent), and the adjustment releases the earned or used-up portion into the income statement. The second option describes an accrual, the opposite ordering.

M9. **A.** The rackets are Inventory until they are sold; the paper is Supplies until it is used.
Both are current assets bought from suppliers; they differ in what turns them into an expense. Inventory is goods bought but not yet sold, so the rackets become Cost of Goods Sold when a customer buys them. Supplies are goods bought but not yet used, so the paper becomes Supplies Expense as the office uses it.

M10. **B.** $7,840
2/10 means a 2% discount for paying within 10 days, and March 11 is 8 days after the purchase, so it qualifies: $8,000 × 98% = $7,840. Paying after March 13 would have cost the full $8,000, due by day 30.

M11. **D.** Net Income.
The two formats list the same revenues and expenses and arrive at the same Net Income. The multi-step statement adds subtotals on the way down (Gross Profit, Income from Operations, Income before Income Tax), none of which a single-step statement shows.

M12. **B.** $24,000
Net Sales are $62,000 − $2,000 = $60,000, and gross profit is Net Sales less Cost of Goods Sold: $60,000 − $36,000 = $24,000. Starting from Sales Revenue gives $26,000; SG&A is subtracted only below gross profit.

M13. **E.** Periodic, because inventory is counted only at period end and Cost of Goods Sold must be inferred.
A periodic system knows beginning inventory, purchases and the ending count, so Cost of Goods Sold is backed out as a residual. A perpetual system records Cost of Goods Sold at every sale, so the figure is already known.

M14. **C.** $60
Inventory is an asset recorded at its cost, what the company gave up to get it. The $100 price matters only when the unit is sold, and only then does the $40 difference show up, as gross profit.

M15. **D.** Holding too little inventory can cause stockouts, which lower revenues.
A shelf that runs empty loses sales, so too little inventory lowers revenues. Too much has a cost as well: storing and insuring it raises expenses, and goods that are damaged, expired or obsolete cannot be sold, which raises expenses too.

M16. **A.** How the cost of goods available for sale is split between Cost of Goods Sold and Ending Inventory.
The method is a cost flow assumption: it decides which costs are assumed to be sold, not which boxes actually ship. Cash paid and the cost of goods available for sale are fixed by the purchases before any method is applied.

M17. **B.** the same, because the same units were bought and sold at the same prices.
The cash paid to suppliers and collected from customers is a fact about the transactions, unaffected by which costs are assigned to Cost of Goods Sold. Only the split of a fixed cost of goods available for sale between expense and asset changes.

M18. **C.** cars, jewelry and real estate.
It requires knowing exactly which unit was sold, so it fits high-value items that can each be told apart. For interchangeable goods like gasoline or cartons of milk, tracing a specific unit is impractical.

Part B: Journal entries

Walmart (J1–J10)

(1). Walmart bought $10,500 of bikes from a supplier on account and received them.

Dr	**J1 = E**	Inventory		$10,500
Cr	**J2 = A**		Accounts Payable	$10,500

(2). Walmart paid a trucking company $200 cash to deliver the bikes bought in (1) to its store.

Dr	**J3 = E**	Inventory		$200
Cr	**J4 = C**		Cash	$200

(3). Walmart returned some of the bikes bought in (1) to the supplier. The supplier reduced the amount Walmart owes by $500.

Dr	**J5 = A**	Accounts Payable		$500
Cr	**J6 = E**		Inventory	$500

(4). Walmart sold four bikes to customers for $200 each, $800 in total, and received cash. Record the sale.

Dr	**J7 = C**	Cash	\$800
Cr	**J8 = G**	Sales Revenue	\$800

(5). The four bikes sold in (4) had cost Walmart \$175 each, \$700 in total. Record their cost.

Dr	**J9 = D**	Cost of Goods Sold	\$700
Cr	**J10 = E**	Inventory	\$700

Sky Blue Corporation (J11–J18)

(a). October 1: collected \$2,400 cash from a tenant for three months of rent, October to December.

Dr	**J11 = C**	Cash	\$2,400
Cr	**J12 = D**	Deferred Revenue	\$2,400

(b). October 1: paid \$1,200 cash for two years of insurance.

Dr	**J13 = H**	Prepaid Insurance	\$1,200
Cr	**J14 = C**	Cash	\$1,200

(c). The rent from (a) that was earned in October. Record the adjusting entry on October 31.

Dr	**J15 = D**	Deferred Revenue	\$800
Cr	**J16 = J**	Rent Revenue	\$800

(d). The insurance from (b) that was used up in October. Record the adjusting entry on October 31.

Dr	**J17 = G**	Insurance Expense	\$50
Cr	**J18 = H**	Prepaid Insurance	\$50

Part C: Numeric

N1. **16**

\$4,000 + \$15,000 = \$19,000 available; \$19,000 − \$3,000 still on hand = \$16,000.

N2. **28**

Acquisition cost includes every cost needed to acquire the oven and prepare it for use: \$24,000 + \$1,500 + \$2,500 = \$28,000. The \$600 of electricity is an expense of the month.

N3. **13**

Specific identification uses the cost of the units actually sold: \$400 + \$900 = \$1,300.

N4. **41**

$10 \times \$7 + 30 \times \$8 + 10 \times \$10 = \$70 + \$240 + \$100 = \$410$.

N5. **27**

FIFO sells the oldest 35 units: $10 \times \$7 + 25 \times \$8 = \$270$.

N6. **14**

The newest 15 units remain: $5 \times \$8 + 10 \times \$10 = \$140$ (= \$410 − \$270).

N7. **41**

The same \$410 as under FIFO: the costing method only splits the cost of goods available for sale.

N8. **30**

LIFO sells the newest 35 units: $10 \times \$10 + 25 \times \$8 = \$300$.

N9. **11**

The oldest 15 units remain: $10 \times \$7 + 5 \times \$8 = \$110$ (= \$410 − \$300).