1) Which one of the following terms refers to an actual cost rather than an estimate?
   a. budget
   b. appropriation
   c. expenditure
   d. encumbrance

   **Competency:** Advanced accounting

2) Which one of the following assets could appear in the governmental fund balance sheet?
   a. goodwill
   b. inventories
   c. capital assets
   d. deferred charges for debt issuance costs

   **Competency:** Advanced accounting

3) The preferred method of determining fair value of transactions is:
   a. market based values
   b. computations by outside experts
   c. external auditor estimates
   d. reasonable management assumptions

   **Competency:** Auditing

4) The document that generates recording of a sale is called:
   a. customer order
   b. purchase order
   c. invoice
   d. shipping order

   **Competency:** Auditing
5) During 2008, Laoble, Incorporated purchased $3,200,000 of inventory. The cost of goods sold for 2008 was $3,600,000 and the ending inventory at December 31, 2008, was $400,000. What was the inventory turnover for 2008?
   a. 6  
   b. 9  
   c. 8  
   d. 5.3

   **Competency:** Intermediate accounting I and II

6) If, at the end of a period, a company erroneously excluded some goods from its ending inventory and also erroneously did **not** record the purchase of these goods in its accounting records, these errors would cause:
   a. the ending inventory, cost of goods sold, and retained earnings to be understated  
   b. cost of goods sold and net income to be understated  
   c. the ending inventory and retained earnings to be understated  
   d. no effect on net income, working capital, and retained earnings

   **Competency:** Intermediate accounting I and II

7) During the past 12 months, the Aaron Corporation had a net income of $50,000. What is the amount of the investment if the return on investment is 20 percent?
   a. $250,000  
   b. $500,000  
   c. $100,000  
   d. $200,000

   **Competency:** Managerial and cost accounting

8) ________ describes contexts in which an employee prefers to exert less effort than the effort that the owner wants because the employee’s effort **cannot** be accurately monitored and enforced.
   a. Incentive compensation  
   b. Moral hazard  
   c. Management compensation  
   d. Goal congruence

   **Competency:** Managerial and cost accounting
9) What is the primary goal of the personal holding company tax?
   a. Lower the effective tax rates on businesses
   b. force dividends to be paid
   c. provide more revenue
   d. avoid the capital gains tax

   **Competency:** Tax

10) Which one of the following businesses is subject to the personal holding company tax?
   a. C corporation
   b. sole proprietorship dealing in stocks
   c. small investment companies
   d. not-for-profit university

   **Competency:** Tax

**ANSWER KEY**
   1. c
   2. b
   3. a
   4. c
   5. a
   6. d
   7. a
   8. b
   9. b
   10. a