

Name: \_\_\_\_\_ Date: \_\_\_\_\_

1. The study of accounting is not useful for a business career unless your career objective is to become an accountant.
  - A) True
  - B) False
  
2. Which of the following is an external user of accounting information?
  - A) Labor unions.
  - B) Finance directors.
  - C) Company officers.
  - D) Managers.
  
3. The cost principle requires that when assets are acquired, they be recorded at
  - A) appraisal value.
  - B) cost.
  - C) market price.
  - D) book value.
  
4. The private sector organization involved in developing accounting principles is the
  - A) Feasible Accounting Standards Body.
  - B) Financial Accounting Studies Board.
  - C) Financial Accounting Standards Board.
  - D) Financial Auditors' Standards Body.
  
5. GAAP stands for
  - A) Generally Accepted Auditing Procedures.
  - B) Generally Accepted Accounting Principles.
  - C) Generally Accepted Auditing Principles.
  - D) Generally Accepted Accounting Procedures.
  
6. Liabilities of a company would *not* include
  - A) notes payable.
  - B) accounts payable.
  - C) wages payable.
  - D) cash.

7. Owner's equity can be described as
- A) creditorship claim on total assets.
  - B) ownership claim on total assets.
  - C) benefactor's claim on total assets.
  - D) debtor claim on total assets.
8. The basic accounting equation *cannot* be restated as
- A)  $\text{Assets} - \text{Liabilities} = \text{Owner's Equity}$ .
  - B)  $\text{Assets} - \text{Owner's Equity} = \text{Liabilities}$ .
  - C)  $\text{Owner's Equity} + \text{Liabilities} = \text{Assets}$ .
  - D)  $\text{Assets} + \text{Liabilities} = \text{Owner's Equity}$ .
9. If total liabilities increased by \$15,000 and owner's equity increased by \$10,000 during a period of time, then total assets must change by what amount and direction during that same period?
- A) \$25,000 decrease
  - B) \$5,000 decrease
  - C) \$5,000 increase
  - D) \$25,000 increase
10. If total liabilities increased by \$17,000 during a period of time and owner's equity decreased by \$6,000 during the same period, then the amount and direction (increase or decrease) of the period's change in total assets is a(n)
- A) \$23,000 decrease.
  - B) \$11,000 decrease.
  - C) \$11,000 increase.
  - D) \$23,000 increase.
11. Owner's equity is increased by
- A) drawings.
  - B) revenues.
  - C) expenses.
  - D) liabilities.

12. Indicate which of these items is an asset (A), liability (L) or owner's equity (OE) account.

- \_\_\_\_\_ (1) Supplies
- \_\_\_\_\_ (2) Owner's Drawings
- \_\_\_\_\_ (3) Buildings
- \_\_\_\_\_ (4) Notes Payable
- \_\_\_\_\_ (5) Salaries and Wages Payable

13. Determine the missing items.

<b>Assets</b>	=	<b>Liabilities</b>	+	<b>Owner's Equity</b>
\$75,000		\$52,000		(a)
(b)		\$28,000		\$34,000
\$84,000		(c)		\$55,000

14. Use the following information to calculate for the year ended December 31, 2011 (a) net income, (b) ending owner's equity, and (c) total assets.

Supplies	\$ 1,000	Revenues	\$23,000
Operating expenses	12,000	Cash	15,000
Accounts payable	9,000	Drawings	1,000
Accounts receivable	3,000	Notes payable	1,000
Beginning Capital	5,000	Equipment	6,000

15. One item is omitted in each of the following summaries of balance sheet and income statement data for three different sole proprietorships, X, Y, and Z. Determine the amounts of the missing items, identifying each proprietorship by letter.

	Proprietorship		
	X	Y	Z
Beginning of the Year:			
Assets	\$380,000	\$150,000	\$199,000
Liabilities	250,000	105,000	168,000
End of the Year:			
Assets	450,000	185,000	195,000
Liabilities	280,000	95,000	169,000
During the Year:			
Additional Investment by the owner	<u>    ?</u>	79,000	80,000
Withdrawals by the owner	90,000	83,000	<u>    ?</u>
Revenue	195,000	<u>    ?</u>	187,000
Expenses	170,000	113,000	175,000

16. The left side of an account is
- blank.
  - a description of the account.
  - the debit side.
  - the balance of the account.
17. Credits
- decrease both assets and liabilities.
  - decrease assets and increase liabilities.
  - increase both assets and liabilities.
  - increase assets and decrease liabilities.
18. A debit to an asset account indicates
- an error.
  - a credit was made to a liability account.
  - a decrease in the asset.
  - an increase in the asset.
19. The normal balance of any account is the
- left side.
  - right side.
  - side which increases that account.
  - side which decreases that account.

20. A credit is *not* the normal balance for which account listed below?
- A) Capital account
  - B) Revenue account
  - C) Liability account
  - D) Drawings account
21. Which one of the following represents the expanded basic accounting equation?
- A)  $\text{Assets} = \text{Liabilities} + \text{Owner's Capital} + \text{Owner's Drawings} - \text{Revenue} - \text{Expenses}$ .
  - B)  $\text{Assets} + \text{Owner's Drawings} + \text{Expenses} = \text{Liabilities} + \text{Owner's Capital} + \text{Revenues}$ .
  - C)  $\text{Assets} - \text{Liabilities} - \text{Owner's Drawings} = \text{Owner's Capital} + \text{Revenues} - \text{Expenses}$ .
  - D)  $\text{Assets} = \text{Revenues} + \text{Expenses} - \text{Liabilities}$ .
22. An accountant has debited an asset account for \$1,200 and credited a liability account for \$500. What can be done to complete the recording of the transaction?
- A) Nothing further must be done.
  - B) Debit an owner's equity account for \$700.
  - C) Debit another asset account for \$700.
  - D) Credit a different asset account for \$700.
23. Which account below is *not* a subdivision of owner's equity?
- A) Drawings
  - B) Revenues
  - C) Expenses
  - D) Liabilities
24. TransAm Mail Service purchased equipment for \$2,500. TransAm paid \$400 in cash and signed a note for the balance. TransAm debited the Equipment account, credited Cash and
- A) nothing further must be done.
  - B) debited the Capital account for \$2,100.
  - C) credited another asset account for \$400.
  - D) credited a liability account for \$2,100.

25. At January 1, 2012, Alligator Industries reported owner's equity of \$130,000. During 2012, Alligator had a net loss of \$30,000 and owner drawings of \$15,000. At December 31, 2012, the amount of owner's equity is
- A) \$85,000.
  - B) \$100,000.
  - C) \$115,000.
  - D) \$145,000.

26. Chik Chik Company showed the following balances at the end of its first year:

Cash	\$ 3,000
Prepaid insurance	4,700
Accounts receivable	3,500
Accounts payable	2,800
Notes payable	4,200
Owner's Capital	1,400
Owner's Drawings	700
Revenues	22,000
Expenses	17,500

What did Chik Chik Company show as total credits on its trial balance?

- A) \$25,700
  - B) \$30,400
  - C) \$31,100
  - D) \$35,100
27. Beethoven Company provided consulting services and billed the client \$3,100. As a result of this event,
- A) assets remained unchanged.
  - B) assets increased by \$3,100.
  - C) owner's equity increased by \$3,100.
  - D) Both b and c.
28. Which of the following rules is *incorrect*?
- A) Credits decrease the drawing account.
  - B) Debits increase the capital account.
  - C) Credits increase revenue accounts.
  - D) Debits decrease liability accounts.

29. Journalize the following transactions for Xiu Xiu Company for June 2012, the company's first month of operations. You may omit explanations for the transactions.
1. Purchased equipment on account for \$7,000.
  2. Billed customers \$5,000 for services performed.
  3. Made payment of \$2,300 on account for equipment purchased earlier in month.
  4. Collected \$2,900 on customer accounts.
30. The revenue recognition principle dictates that revenue should be recognized in the accounting records
- A) when cash is received.
  - B) when it is earned.
  - C) at the end of the month.
  - D) in the period that income taxes are paid.
31. The expense recognition principle matches
- A) customers with businesses.
  - B) expenses with revenues.
  - C) assets with liabilities.
  - D) creditors with businesses.
32. A company spends \$15 million dollars for an office building. Over what period should the cost be written off?
- A) When the \$15 million is expended in cash.
  - B) All in the first year.
  - C) Over the useful life of the building.
  - D) After \$15 million in revenue is earned.
33. Adjusting entries are required
- A) yearly.
  - B) quarterly.
  - C) monthly.
  - D) every time financial statements are prepared.

34. Crue Company had the following transactions during 2012:
- Sales of \$4,500 on account
  - Collected \$2,000 for services to be performed in 2013
  - Paid \$1,625 cash in salaries
  - Purchased airline tickets for \$250 in December for a trip to take place in 2013

What is Crue's 2012 net income using accrual accounting?

- A) \$2,625.
  - B) \$2,875.
  - C) \$4,625.
  - D) \$4,875.
35. An adjusting entry
- A) affects two balance sheet accounts.
  - B) affects two income statement accounts.
  - C) affects a balance sheet account and an income statement account.
  - D) is always a compound entry.
36. Expenses incurred but not yet paid or recorded are called
- A) prepaid expenses.
  - B) accrued expenses.
  - C) interim expenses.
  - D) unearned expenses.
37. Accrued revenues are
- A) received and recorded as liabilities before they are earned.
  - B) earned and recorded as liabilities before they are received.
  - C) earned but not yet received or recorded.
  - D) earned and already received and recorded.
38. Lake of Fire Company purchased supplies costing \$7,000 and debited Supplies for the full amount. At the end of the accounting period, a physical count of supplies revealed \$2,400 still on hand. The appropriate adjusting journal entry to be made at the end of the period would be
- A) Debit Supplies Expense, \$2,400; Credit Supplies, \$2,400.
  - B) Debit Supplies, \$4,600; Credit Supplies Expense, \$4,600.
  - C) Debit Supplies Expense, \$4,600; Credit Supplies, \$4,600.
  - D) Debit Supplies, \$2,400; Credit Supplies Expense, \$2,400.



39. Accumulated Depreciation is
- A) an expense account.
  - B) an owner's equity account.
  - C) a liability account.
  - D) a contra asset account.
40. Meat Puppets Company purchased a computer for \$4,800 on December 1. It is estimated that annual depreciation on the computer will be \$1,200. If financial statements are to be prepared on December 31, the company should make the following adjusting entry:
- A) Debit Depreciation Expense, \$1,200; Credit Accumulated Depreciation, \$1,200.
  - B) Debit Depreciation Expense, \$100; Credit Accumulated Depreciation, \$100.
  - C) Debit Depreciation Expense, \$3,600; Credit Accumulated Depreciation, \$3,600.
  - D) Debit Office Equipment, \$4,800; Credit Accumulated Depreciation, \$4,800.
41. Depreciation is the process of
- A) valuing an asset at its fair market value.
  - B) increasing the value of an asset over its useful life in a rational and systematic manner.
  - C) allocating the cost of an asset to expense over its useful life in a rational and systematic manner.
  - D) writing down an asset to its real value each accounting period.
42. If an adjusting entry is *not* made for an accrued expense,
- A) expenses will be overstated.
  - B) liabilities will be understated.
  - C) net income will be understated.
  - D) owner's equity will be understated.
43. Sebastian Belle has performed \$2000 of CPA services for a client but has not billed the client as of the end of the accounting period. What adjusting entry must Sebastian make?
- A) Debit Cash and credit Unearned Revenue
  - B) Debit Accounts Receivable and credit Unearned Revenue
  - C) Debit Accounts Receivable and credit Service Revenue
  - D) Debit Unearned Revenue and credit Service Revenue

44. Stone Roses Candies paid employee wages on and through Friday, January 26, and the next payroll will be paid in February. There are three more working days in January (29–31). Employees work 5 days a week and the company pays \$1,000 a day in wages. What will be the adjusting entry to accrue wages expense at the end of January?

- |    |                            |       |       |
|----|----------------------------|-------|-------|
| A) | Salaries and Wages Expense | 1,000 |       |
|    | Salaries and Wages Payable |       | 1,000 |
| B) | Salaries and Wages Expense | 5,000 |       |
|    | Salaries and Wages Payable |       | 5,000 |
| C) | Salaries and Wages Expense | 3,000 |       |
|    | Salaries and Wages Payable |       | 3,000 |

D) No adjusting entry is required.

45. The adjusted trial balance of Sodajerck Company at December 31, 2012 includes the following accounts: Owner's Capital \$12,600; Owner's Drawings \$7,000; Service Revenue \$35,000; Salaries and Wages Expense \$13,000; Insurance Expense \$2,000; Rent Expense \$3,500; Supplies Expense \$2,500; and Depreciation Expense \$2,000. Prepare an owner's equity statement for the year.

46. On July 1, 2010, Jeffrey Underwriters Associates received \$10,000 from a client for a 2-year insurance policy.

**Instructions**

Prepare the necessary journal entries for Jeffrey Underwriters Associates on July 1 and December 31.

47. If the total debit column exceeds the total credit column of the income statement columns on a worksheet, then the company has

- A) earned net income for the period.
- B) an error because debits do not equal credits.
- C) suffered a net loss for the period.
- D) to make an adjusting entry.

48. The income statement and balance sheet columns of Iron and Wine Company's worksheet reflect the following totals:

	Income Statement		Balance Sheet	
	Dr.	Cr.	Dr.	Cr.
Totals	\$72,000	\$48,000	\$60,000	\$84,000

The net income (or loss) for the period is

- A) \$48,000 income.  
 B) \$24,000 income.  
 C) \$24,000 loss.  
 D) not determinable.
49. Closing entries are necessary for
- A) permanent accounts only.  
 B) temporary accounts only.  
 C) both permanent and temporary accounts.  
 D) permanent or real accounts only.
50. Each of the following accounts is closed to Income Summary *except*
- A) Expenses.  
 B) Owner's Drawings.  
 C) Revenues.  
 D) All of these are closed to Income Summary.
51. Closing entries are made
- A) in order to terminate the business as an operating entity.  
 B) so that all assets, liabilities, and owner's capital accounts will have zero balances when the next accounting period starts.  
 C) in order to transfer net income (or loss) and owner's drawings to the owner's capital account.  
 D) so that financial statements can be prepared.
52. The income summary account
- A) is a permanent account.  
 B) appears on the balance sheet.  
 C) appears on the income statement.  
 D) is a temporary account.

53. In preparing closing entries
- A) each revenue account will be credited.
  - B) each expense account will be credited.
  - C) the owner's capital account will be debited if there is net income for the period.
  - D) the owner's drawings account will be debited.
54. A post-closing trial balance should be prepared
- A) before closing entries are posted to the ledger accounts.
  - B) after closing entries are posted to the ledger accounts.
  - C) before adjusting entries are posted to the ledger accounts.
  - D) only if an error in the accounts is detected.

55. The following information is for Sunny Day Real Estate:

Sunny Day Real Estate  
Balance Sheet  
December 31, 2012

Cash	\$ 25,000	Accounts Payable	\$ 60,000
Prepaid Insurance	30,000	Salaries and Wages Payable	15,000
Accounts Receivable	50,000	Mortgage Payable	<u>85,000</u>
Inventory	70,000	Total Liabilities	\$160,000
Land Held for Investment	85,000		
Land	120,000		
Building	\$100,000	Owner's Capital	<u>370,000</u>
Less Accumulated Depreciation	<u>(20,000)</u>		
Trademark	<u>70,000</u>	Total Liabilities and Owner's Equity	<u>\$530,000</u>
Total Assets	<u>\$530,000</u>		

The total dollar amount of assets to be classified as current assets is

- A) \$105,000.
  - B) \$175,000.
  - C) \$190,000.
  - D) \$260,000.
56. A current asset is
- A) the last asset purchased by a business.
  - B) an asset which is currently being used to produce a product or service.
  - C) usually found as a separate classification in the income statement.
  - D) an asset that a company expects to convert to cash or use up within one year.

57. On a classified balance sheet, current assets are customarily listed
- in alphabetical order.
  - with the largest dollar amounts first.
  - in the order of liquidity.
  - in the order of acquisition.
58. The most important information needed to determine if companies can pay their current obligations is the
- net income for this year.
  - projected net income for next year.
  - relationship between current assets and current liabilities.
  - relationship between short-term and long-term liabilities.
59. What is the order in which assets are generally listed on a classified balance sheet?
- Current and long-term
  - Current; property, plant, and equipment; long-term investments; intangible assets
  - Current; property, plant, and equipment; intangible assets; long-term investments
  - Current; long-term investments; property, plant, and equipment; intangible assets
60. These financial statement items are for Rugen Company at year-end, July 31, 2012.

Salaries and wages payable	\$ 2,980	Notes payable (long-term)	\$ 3,000
Salaries and wages expense	45,700	Cash	7,200
Utilities expense	19,100	Accounts receivable	9,780
Equipment	38,000	Accumulated depreciation	6,000
Accounts payable	4,100	Owner's Drawings	4,000
Service revenue	57,200	Depreciation expense	4,000
Rent revenue	6,500	Owner's capital (beginning of the year)	48,000

**Instructions**

- Prepare an income statement and an owner's equity statement for the year. The owner did not make any new investments during the year.
- Prepare a classified balance sheet at July 31.

61. Presented below is an adjusted trial balance for Shawn Company, at December 31, 2012.

Cash	\$5,700	Accounts payable	\$10,000
Accounts receivable	20,000	Notes payable	9,000
Prepaid insurance	15,000	Accumulated depreciation—	
Equipment	35,000	Equipment	14,000
Depreciation expense	7,000	Service revenue	27,000
Owner's Drawings	1,500	Owner's capital	24,000
Advertising expense	1,400	Unearned service revenue	16,000
Rent expense	800		
Salaries and wages expense	12,000		
Insurance expense	<u>1,600</u>		
	<u>\$100,000</u>		<u>\$100,000</u>

**Instructions**

- (a) Prepare closing entries for December 31, 2012.  
 (b) Determine the balance in the Owner's Capital account after the entries have been posted.
62. Indicate the proper sequence of the steps in the accounting cycle by placing numbers 1-8 in the blank spaces.
- \_\_\_\_\_ a. Analyze business transactions.
  - \_\_\_\_\_ b. Journalize and post adjusting entries.
  - \_\_\_\_\_ c. Journalize and post closing entries.
  - \_\_\_\_\_ d. Journalize the transactions.
  - \_\_\_\_\_ e. Prepare a post-closing trial balance.
  - \_\_\_\_\_ f. Prepare a trial balance.
  - \_\_\_\_\_ g. Prepare financial statements.
  - \_\_\_\_\_ h. Post to ledger accounts.
63. Owner's equity is best depicted by the following:
- A) Assets = Liabilities.
  - B) Liabilities + Assets.
  - C) Residual equity + Assets.
  - D) Assets – Liabilities.