

Accounting I Test

Questions 1-30: True/False

- 1. The total of all accounts with normal debit balances should equal the total of all accounts with normal credit balances if the rules of debit and credit were followed correctly.
- 2. Permanent accounts start each accounting period with a zero balance.
- 3. Expenses have the opposite effect from revenue on the capital account.
- 4. Liability, revenue, and withdrawal accounts all have normal credit balances.
- 5. The rules of debit and credit for expense accounts are the same as the rules for asset accounts.
- 6. Liability, expense, and capital accounts all have normal credit balances.
- 7. A chart of accounts is limited to 50 accounts.
- 8. A business groups its accounts in a ledger.
- 9. The payment of a liability is recorded by a debit to the liability account and a credit to the owner's capital account.
- 10. A credit to an account always increases it; a debit to an account always decreases it.
- 11. The top of the T account is used for account titles. Credits are entered on the left side of the T; debits, on the right.
- 12. The total financial claims do not have to equal the total cost of the property.
- 13. A creditor has a financial claim to the assets of a business.
- 14. One of the purposes of accounting is to provide financial information about property and the rights to that property.
- 15. The free enterprise system is based on the right to own property.
- 16. "Assets + Liabilities = Owner's Equity" is another way to express the basic accounting equation.
- 17. Service businesses are not intended to operate at a profit
- 18. GAAP is a way to communicate financial information in a form understood by those interested in the operations and financial condition of the business.
- 19. The life of a business is divided into specific periods for reporting purposes.

- ___ 20. A business is earning a profit if the selling price of its product covers the cost of the raw materials needed to make the product.
- ___ 21. The corporation is the easiest form of business to organize.
- ___ 22. A business owner must always get permission to operate from the state government.
- ___ 23. A CPA is a person who has passed a national test and met specified experience and educational standards to become "certified" to practice accounting.
- ___ 24. A deficit is reported in the stockholders' equity section of the balance sheet.
- ___ 25. The matching concept requires that the income statement for a time period be matched with the balance sheet of the same time period.
- ___ 26. When prices are falling, LIFO generally results in a higher cost of goods sold and therefore helps reduce the tax liability.
- ___ 27. If the totals on the trial balance of the work sheet do not balance and the difference between the debits and credits is \$1,000, it is possible that a transposition error has been made.
- ___ 28. Each amount in the General Debit column of the combination journal is posted separately to an account in the general ledger.
- ___ 29. The complete series of activities involved in double-entry accounting during a fiscal period is the accounting cycle
- ___ 30. Revenues increase owner's equity, and increases in revenues are recorded as debits.

31-45: Fill in the Blank

31. The division of a partnership's net income or net loss is often shown on the _____.
a. Balance Sheet
b. Income Statement
c. Partnership's tax return
d. Work Sheet
32. All of the following factors affect the estimate of depreciation EXCEPT the _____.
a. Accumulated depreciation of the asset
b. Cost of the asset
c. Depreciation method used
d. Estimated useful life of the asset
33. The cost of land is not depreciated because _____.
a. Federal regulations prohibit it
b. Land is assumed to have an unlimited useful life
c. Land values only increase
d. There is no appropriate depreciation method that could be used

34. Interest on an 8%, \$5,000 promissory note for 6 months is _____.
- \$33
 - \$100
 - \$200
 - \$400
35. The term of a promissory note is the _____.
- Date on which the note is due
 - Date on which the note was issued
 - Interest rate charged on the note
 - Length of time the maker has to repay the note
36. Employees of CPA firms may not accept more than a token gift because of the principle of _____.
- Confidentiality
 - Ethical values
 - Independence
 - Reliability
37. Any partner may enter into agreements that are binding on the partnership through the element known as _____.
- Equitable duty
 - Mutual agency
 - Partnership agreement
 - Partnership liquidation
38. The form prepared by the petty cashier to request cash for replenishing the petty cash fund is the _____.
- Cash proof
 - Petty cash register
 - Petty cash requisition
 - Voucher
39. The interest plus principal of a note is called the _____.
- Bank discount
 - Face value
 - Maturity value
 - Proceeds
40. When a business issues an interest-bearing note to borrow money, the accounts affected are _____.
- Cash in Bank, Interest Expense, and Notes Receivable
 - Cash in Bank, Interest Expense, and Notes Payable
 - Cash in Bank, Interest Income, and Notes Payable
 - Cash in Bank and Notes Payable

41. The _____ method of accounting for uncollectible accounts matches the estimated uncollectible accounts expense with the sales made during the same period.
- Allowance
 - Direct write-off
 - Specific identification
 - Uncollectible accounts
42. A formal policy of rules and standards that describes the behaviors that a company expects from its management is generally known as a(n) _____.
- Behavioral plan
 - Code of ethics
 - Creed
 - Internal business plan
43. Under the perpetual inventory system, all purchases of merchandise are debited to the _____ account.
- Cost of Merchandise Available for Sale
 - Cost of Merchandise
 - Merchandise Inventory
 - Purchases
44. Which account would normally NOT require an adjusting entry?
- Accounts Receivable
 - Accumulated Depreciation
 - Merchandise Inventory
 - Salaries Expense
45. The _____ basis of accounting recognizes and records revenues when money is received and expenses only when money is paid out.
- Accrual
 - Cash
 - Periodic
 - Perpetual

Use the transaction below to answer questions 46-47.

December 15: Issued a check for \$1,500 in payment of the dividend on preferred stock.

46. Assuming that the necessary entries were made on the date of declaration, what account should be debited?
- Capital Stock
 - Cash in Bank
 - Dividends—Preferred
 - Dividends Payable—Preferred
47. Assuming the necessary entries were made on the date of declaration, what account should be credited?
- Capital Stock
 - Cash in Bank
 - Dividends—Preferred
 - Dividends Payable—Preferred

48. When replenishing the petty cash fund, which account is NEVER used?
- a. Cash in Bank
 - b. Cash Short and Over
 - c. Miscellaneous Expense
 - d. Petty Cash Fund
49. Which of the following is a current asset?
- a. Buildings
 - b. Delivery Equipment
 - c. Merchandise Inventory
 - d. Accounts Payable
50. The _____ depreciation method equally distributes the depreciation over the useful life of the asset.
- a. Accelerated
 - b. Double-declining balance
 - c. Straight-line
 - d. Units of production
51. Which of the following accounts has a normal credit balance?
- a. Accounts Receivable
 - b. Allowance for Uncollectible Accounts
 - c. Depreciation Expense
 - d. Uncollectible Accounts Expense

Use the information below to answer questions 52-54.

The Shepard Firm, a manufacturer, has a general ledger account balance of \$73,395 for Merchandise Inventory as of July 1. On the following June 30, at the end of the fiscal period, a physical inventory determined there was \$74,928 in merchandise on hand.

52. What is the amount of the inventory adjustment?
- a. \$1,533
 - b. \$73,395
 - c. \$74,928
 - d. \$148,323
53. What account would be debited in the adjusting entry?
- a. Cash in Bank
 - b. Income Summary
 - c. Inventory Expense
 - d. Merchandise Inventory
54. What account would be credited in the adjusting entry?
- a. Cash in Bank
 - b. Income Summary
 - c. Inventory Expense
 - d. Merchandise Inventory

Use the information below to answer questions 55-59.

Marabelle Publishers reported the following amounts for the week ending April 20. The total amount earned by all employees is \$2,193.40. The amount withheld for federal income tax is \$263.00. Social security tax is \$136.00, and Medicare tax is \$31.80. Three employees each have \$11.25 deducted for hospital insurance. The amount withheld for state income tax is \$38.70.

55. What entry should be recorded in the Salary Expense account?

- a. Credit of \$1,690.15
- b. Credit of \$2,193.40
- c. Debit of \$1,690.15
- d. Debit of \$2,193.40

56. What entry should be recorded to account for the medicare taxes?

- a. Credit of \$31.80 to Medicare Tax Expense
- b. Credit of \$31.80 to Medicare Tax Payable
- c. Debit of \$31.80 to Medicare Tax Expense
- d. Debit of \$31.80 to Medicare Tax Payable

57. What is the total amount of liabilities for the weekly payroll?

- a. \$430.80
- b. \$503.25
- c. \$1,690.15
- d. \$2,193.40

58. What is the entry to the Hospital Insurance Premiums Payable account?

- a. Credit of \$11.25
- b. Credit of \$33.75
- c. Debit of \$11.25
- d. Debit of \$33.75

59. What is the entry to the Cash in Bank account?

- a. Credit of \$1,690.15
- b. Credit of \$2,193.40
- c. Debit of \$1,690.15
- d. Debit of \$2,193.40

Questions 60-80, True/False

____ 60. A listing of customer accounts, account balances, and total amount due from all customers is a schedule of accounts receivable.

____ 61. Medicare is funded by the federal government but not under the social security law.

____ 62. Employers in many states are required to withhold state, city, or county income tax from employee earnings.

____ 63. The information used to prepare payroll checks is taken from a payroll register.

- ___ 64. Employers must pay to the government the taxes withheld from employee earnings.
- ___ 65. The employer social security tax rate is not the same as the employee social security tax rate.
- ___ 66. Work sheets for service and merchandising businesses are very different.
- ___ 67. The inventory of supplies at the end of a fiscal period is determined by actually counting the amount of supplies on hand.
- ___ 68. Data needed to prepare the liabilities section of a balance sheet are obtained from a work sheet's Balance Sheet Debit column.
- ___ 69. Indicating a source document is not necessary when journalizing adjusting entries.
- ___ 70. Amounts needed for the closing entries are obtained from the Trial Balance columns of a work sheet.
- ___ 71. Expense accounts are closed by debiting the expense accounts and crediting Income Summary.
- ___ 72. Only one type of accounting system can be used to record, summarize, and report a business's financial information.
- ___ 73. The amount on each line of a purchases journal is posted as a credit to the named vendor account in the accounts payable ledger.
- ___ 74. When several journals are used, an abbreviation is used in the Post. Ref. column of a ledger to show the journal from which the posting is made.
- ___ 75. Purchases on account are recorded in a purchases journal at list price.
- ___ 76. A schedule of accounts receivable is prepared before financial statements are prepared to prove the accounts receivable ledger.
- ___ 77. A sales invoice is the source document for journalizing a sales on account transaction.
- ___ 78. When the allowance account has a previous credit balance, this previous balance is subtracted from the amount of the adjustment for uncollectible accounts expense.
- ___ 79. The Realization of Revenue accounting concept explains why failing to collect an account at a later date than the original sale cancels the sale and reduces revenue.
- ___ 80. Canceling the balance of a customer account because the customer does not pay is called writing off an account.

81. A business has total cash of \$30,000.00. Then the business pays \$1,000.00 on account, buys insurance coverage of \$750.00, buys supplies for \$1,200.00, and pays \$300.00 more on account. The balance of the cash account is now _____.

- a. \$25,750.00
- b. \$26,750.00
- c. \$28,700.00
- d. none of the above

82. A business has total assets of \$30,000.00. Then the business pays \$1,000.00 on account, buys insurance coverage of \$750.00, buys supplies for \$1,200.00, and pays \$300.00 more on account. Total assets are now _____.

- a. \$25,750.00
- b. \$26,750.00
- c. \$28,700.00
- d. none of the above

83. When the owner withdraws cash for personal use, _____.

- a. liabilities increase and assets decrease
- b. assets decrease and owner's equity increases
- c. assets decrease and owner's equity decreases
- d. liabilities decrease and assets decrease

84. When the owner invests cash in a business, the owner's capital account is _____.

- a. increased by a debit
- b. increased by a credit
- c. decreased by a debit
- d. decreased by a credit

85. When a business receives revenue, Sales is _____.

- a. increased by a debit
- b. increased by a credit
- c. decreased by a debit
- d. decreased by a credit

86. Debits must equal credits _____.

- a. in a T account
- b. on the equation's left side
- c. on the equation's right side
- d. in all transactions

87. The normal balance side of any revenue account is _____.

- a. the debit side
- b. the credit side
- c. the left side
- d. none of the above

88. A sale on account _____.

- a. increases an owner's equity account and increases an asset account
- b. increases a liability account and increases an asset account
- c. increases an owner's equity account and increases a liability account
- d. increases an owner's equity account and decreases a liability account

89. If an error is discovered in a general journal entry, ____.
- a. cancel the error by drawing a neat line through the error
 - b. correct the entry by writing the correct item above the canceled error
 - c. do not erase the incorrect item
 - d. all of the above
90. When the previous balance of an account is zero and a credit amount is posted to the account, the new balance is ____.
- a. a dollar amount
 - b. a credit
 - c. a debit
 - d. none of the above
91. When the previous balance of an account is a debit and a debit amount is posted to the account, the new balance is ____.
- a. a dollar amount
 - b. a credit
 - c. a debit
 - d. none of the above
92. A business form ordering a bank to pay cash from a bank account is ____.
- a. a signature card
 - b. a deposit slip
 - c. a check
 - d. none of the above
93. An endorsement on the back of a check consisting only of a signature is ____.
- a. a blank endorsement
 - b. a special endorsement
 - c. a restrictive endorsement
 - d. an incorrect endorsement
94. A lost check with a blank endorsement on it can be cashed by ____.
- a. anyone who has the check
 - b. only the person whose name follows the words "Pay to the order of"
 - c. only the person who endorsed the check
 - d. no one
95. On a work sheet, the balance of Cash is extended to the ____.
- a. Balance Sheet Debit column
 - b. Balance Sheet Credit column
 - c. Income Statement Debit column
 - d. Income Statement Credit column
96. If the Trial Balance columns are not equal and the difference is 1, the error often is ____.
- a. transposed numbers or a "slide"
 - b. in writing an amount in the wrong column
 - c. in posting
 - d. in addition

97. If the Trial Balance columns are not equal and the difference can be divided evenly by 9, the error most likely is _____.

- a. in transposed numbers or a "slide"
- b. subtraction
- c. addition
- d. in writing an amount in the wrong column

98. The sections of an income statement are _____.

- a. assets, liabilities, and owner's equity
- b. heading, revenue, expenses, and net income or net loss
- c. assets, liabilities, and net income or net loss
- d. assets, revenue, and net income or net loss

99. After the adjusting entry for Prepaid Insurance has been posted, Insurance Expense has an up-to-date balance, which is the _____.

- a. same as the beginning balance for Prepaid Insurance
- b. same as the ending balance for Prepaid Insurance
- c. value of insurance premiums used during the fiscal period
- d. value of insurance premiums bought during the fiscal period

100. Temporary accounts begin each new fiscal period with a _____.

- a. debit balance
- b. credit balance
- c. zero balance
- d. balance equal to the net income