

## REVIEW 1

1. The three forms of business entities are:
  - a. Government, cooperatives, and philanthropic organizations
  - b. Financing, investing, and operating
  - c. Sole proprietorships, partnerships, and corporations
  - d. Wholesaler, manufacturer, and retailer
  
2. Which of the following would be classified as external users of financial statements?
  - a. Stockholders and management of the company
  - b. The controller of the company and a company's stockholders
  - c. The company's marketing managers
  - d. The creditors and stockholders of the company
  
3. Which one of the following is **not** one of the three activities included in the definition of accounting?
  - a. Communicating
  - b. Identifying
  - c. Measuring
  - d. Operating
  
4. Which of the following best describes the term “retained earnings”?
  - a. The amount of total profits earned by a business since it began operations.
  - b. The amount of interest or claim that the owners have on the assets of the business.
  - c. The future economic resources of a business entity.
  - d. The cumulative profits earned by the business less any dividends distributed.
  
5. Which one of the following items appears on a balance sheet?
  - a. Accounts payable
  - b. Sales revenue
  - c. Utilities expense
  - d. Cost of goods sold
  
6. Which of the following statements is true?
  - a. Profits distributed to the creditors are called dividends.
  - b. The balance sheet shows the assets, liabilities, and profits of a company.
  - c. Dividends are an expense, and are reported on the income statement as a deduction from net income.
  - d. The income statement reports the revenues and expenses of a company.
  
7. Which statement summarizes the income earned and the dividends paid?
  - a. Statement of cash flows
  - b. Statement of retained earnings
  - c. Balance sheet

d. Income statement

8. Ronald Corporation's end-of-year balance sheet consisted of the following amounts:

Cash	\$ 25,000	Accounts receivable	\$ 46,000
Property, plant & equipment	69,000	Long-term debt	41,000
Capital stock	107,000	Accounts payable	22,000
Retained earnings	?	Inventory	33,000

What is Ronald's *owners' equity* balance at the end of the current year?

- a. \$3,000
  - b. \$110,000
  - c. \$63,000
  - d. \$173,000
9. Raymond Corporation reported the following information for the year ended December 31, 2012:

Net income	\$ 10,000
Dividends	6,000
Retained earnings at December 31, 2012	25,000

What was the balance of Raymond's retained earnings at January 1, 2012?

- a. \$21,000
  - b. \$29,000
  - c. \$31,000
  - d. \$35,000
10. If a company has \$152,000 of revenues, declares and pays \$55,000 in dividends, and has net income of \$89,000, how much were expenses for the year?
- a. \$ 8,000
  - b. \$ 63,000
  - c. \$144,000
  - d. Unable to determine the amount due to incomplete information.
11. Which one of the following is an assumption made in the preparation of financial statements?
- a. Financial statements are prepared for a specific entity that is distinct from the entity owners.
  - b. Financial statements are prepared assuming that inflation has a distinct effect on the monetary unit
  - c. Preparation of financial statements for a specific time period assumes that the balance sheet covers a period of time.
  - d. Market values are always assumed to be irrelevant when preparing financial statements.
- 12.. Zach Enterprises purchased land for \$2,000,000 in 1997. In 2012, an independent appraiser assessed the value at \$4,400,000. What amount should appear on the financial statements in 2012 with respect to the land?
- a. \$2,000,000
  - b. \$2,400,000
  - c. \$4,400,000

- d. Whatever amount the company believes is the best indicator of the true value of the land.
13. The Securities and Exchange Commission (SEC) is concerned with
- a. All companies in the United States regardless of size.
  - b. Companies that issue securities to the general public.
  - c. Accounting reports issued by government entities.
  - d. All domestic and international companies that issue accounting reports.
14. Which of the following accounts are normally reported as current liabilities on a classified balance sheet?
- a. Accounts payable and bonds payable
  - b. Interest payable and mortgage payable
  - c. Income taxes payable and salaries payable
  - d. Capital stock and accounts payable
15. Which of the following would **not** appear on an income statement?
- a. Sales revenue
  - b. Cost of goods sold
  - c. Accounts receivable
  - d. Insurance expense

#### Frankfurt Shoes

Frankfurt Shoes reported the following items on its statement of cash flows for the current year:

Net cash inflows from operating activities	\$70,000
Net cash outflows from investing activities	(20,000)
Net cash outflows from financing activities	(40,000)
Cash balance at the beginning of the year	30,000

16. Read the information about Frankfurt Shoes. What was the amount of net increase or decrease in the cash balance for Frankfurt Shoes for the current year?
- a. \$ 10,000 increase
  - b. \$ 30,000 increase
  - c. \$ 40,000 increase
  - d. \$ 70,000 increase
17. Read the information about Frankfurt Shoes. What was the cash balance for Frankfurt Shoes at the end of the current year?
- a. \$ 10,000
  - b. \$ 30,000
  - c. \$ 40,000
  - d. \$ 70,000
18. Which one of the following is an operating activity of a business?
- a. Paying for purchases of inventory

- b. Issuing stock for cash
  - c. Borrowing money from a bank
  - d. Purchasing a manufacturing plant.
19. The payment of employee salaries has what effect on the accounting equation?
- a. Assets decrease and stockholders' equity decreases
  - b. Liabilities decrease and stockholders' equity decreases
  - c. Assets decrease and liabilities increase
  - d. Assets increase and liabilities decrease
20. Services are provided for customers who are sent bills for the amount they owe. For this transaction, identify the effect on the accounting equation.
- a. Assets increase and liabilities increase.
  - b. Assets increase and stockholders' equity increases.
  - c. Liabilities increase and stockholders' equity decreases.
  - d. Liabilities decrease and assets decrease.
21. The record used to accumulate monetary information for each individual asset, liability, stockholders' equity, revenue, and expense item is a(an)
- a. Account
  - b. General Journal
  - c. General Ledger
  - d. Chart of Accounts
22. The record in which transactions are initially recorded in chronological order as they occur is a(an)
- a. Account
  - b. General Journal
  - c. General Ledger
  - d. Chart of Accounts
23. A list of all accounts and their balances which is used to prove the equality of debits and credits as of a specific date is a(an)
- a. Account
  - b. General Journal
  - c. Trial Balance
  - d. Chart of Accounts
24. Which of the following accounts is increased by a debit entry?
- a. Common Stock (Capital Stock)
  - b. Equipment
  - c. Unearned Subscription Revenue
  - d. Notes Payable
25. Which of the following entries causes a decrease in assets and in net income?
- a. The entry to record the payment of utilities with cash.

- b. The entry to record the payment of rent for three months in advance.
  - c. The entry to record accrued wages payable.
  - d. The entry to record revenue earned but not yet received.
26. Friendly Catering is a local catering service. Conceptually, when should Friendly recognize revenue from its catering service?
- a. At the date the customer places the order
  - b. At the date the meals are served
  - c. At the date the invoice is mailed to the customer
  - d. At the date the customer's payment is received
27. Economical House Painting Company painted four houses in June at \$500 each. At the end of June, three homeowners had paid Economical cash for the jobs. Under the accrual basis, what amounts will be reported on the income statement and the statement of cash flows for June?

	<u>Income Statement</u>	<u>Statement of Cash Flows</u>
a.	\$ 2,000	\$ 2,000
b.	\$ 2,000	\$ 1,500
c.	\$ 1,500	\$ 1,500
d.	\$ 500	\$ 500

28. Singleton Corp. received an 8-month, 9% note for \$100,000 from its agent on October 1, 2012. The note is due on May 30, 2013. If Singleton's accounting period ends on December 31, 2012, how much interest revenue should Singleton recognize during 2012 and 2013?

	<u>2012</u>	<u>2013</u>
a.	\$ 3,750	\$ 2,250
b.	\$ 2,250	\$ 3,750
c.	\$ 9,000	\$ -0-
d.	\$ 3,375	\$ 5,625

29. What happens to the accounting equation when the adjustment for depreciation expense for the accounting period is recorded?
- a. Assets decrease and stockholders' equity decreases
  - b. Assets increase and stockholders' equity increases
  - c. Assets decrease and liabilities decrease
  - d. Liabilities increase and stockholders' equity decreases
30. Vision Corp. had \$1,800 of supplies on hand at January 1. During the year, supplies with a cost of \$4,000 were purchased. At December 31, the actual supplies on hand amount to \$1,300. After the adjustments are recorded and posted at December 31, determine the balances in the Supplies and Supplies Expense accounts.

	<u>Supplies</u>	<u>Supplies Expense</u>
a.	\$ 1,800	\$ 4,000
b.	\$ 1,300	\$ 4,500
c.	\$ 5,300	\$ 5,800
d.	\$ 1,300	\$ 5,800

31. On December 1, 2012, Wenzel Corporation paid \$8,000 rent in advance. The rent per month is \$1,000. If Wenzel's accounting period ends on December 31, 2012, what will be reported on the financial statements?
- Prepaid Rent of \$7,000 on its balance sheet at December 31, 2012
  - Prepaid Rent of \$8,000 on its balance sheet at December 31, 2012
  - Rent Expense of \$8,000 on its 2012 income statement
  - Rent Revenue of \$7,000 on its 2012 income statement
32. Failure to record the earned portion of unearned revenue would result in which of the following?
- Net income being understated
  - No effect on total liabilities
  - Stockholders' equity being overstated
  - Total assets being understated
33. Balance sheet accounts are also known as which of the following?
- Nominal accounts
  - Real accounts
  - Temporary accounts
  - Closing accounts
34. Which of the following accounts is **not** closed to Income Summary at the end of the accounting period?
- Rent Expense
  - Service Revenue
  - Unearned Revenue
  - Supplies Expense
35. Genuine Industrial plant operates five days per week with a daily payroll of \$4,000. Employees are paid every Saturday for the workweek just completed (Monday through Friday). The last day of the month is Wednesday, March 31. What is the effect of the correct adjustment at March 31?
- Increases stockholders' equity and Wages Payable by \$8,000
  - Increases Wages Payable and decreases Cash by \$12,000
  - Decreases stockholders' equity and increases Wages Payable by \$12,000
  - Increases Wages Payable and increases Wages Expense by \$8,000
36. Grand Consulting Services started business on January 1, 2012. Grand performed services for customers totaling \$100,000 of which 40% remain uncollected at the end of December. Under the accrual basis, what amounts would appear on Grand Consulting's financial statements for 2012?
- |    | <u>Income Statement</u> | <u>Statement of Cash Flows</u> |
|----|-------------------------|--------------------------------|
| a. | \$ 100,000              | \$ 60,000                      |
| b. | \$ 100,000              | \$ 100,000                     |
| c. | \$ 60,000               | \$ 60,000                      |
| d. | \$ 60,000               | \$ 100,000                     |

37. Expenses originate from
- Using an asset or recognizing liabilities
  - Incurring liabilities or providing services to customers
  - Collecting cash from customers
  - Paying off liabilities
38. Ingel Corp. purchased equipment at a cost of \$320,000 in January, 2008. As of January 1, 2012, depreciation of \$160,000 had been recorded on this asset. Depreciation expense for 2012 is \$40,000. After the adjustments are recorded and posted at December 31, 2012, what are the balances for the Equipment and Accumulated Depreciation?

	<u>Equipment</u>	<u>Accumulated Depreciation</u>
a.	\$ 320,000	\$ 200,000
b.	\$ 320,000	\$ -0-
c.	\$ 160,000	\$ 40,000
d.	\$ 120,000	\$ 200,000

39. Which one of the following adjustments will increase assets?
- Interest incurred on money borrowed during the period but not yet paid to the bank is accrued
  - Rent revenue is recorded for amounts owed by a tenant but not yet paid
  - The use of supplies is recorded
  - Depreciation for the period is recorded
40. To determine the source of a company's assets, on which financial statement will you look?
- Balance sheet only
  - Income statement only
  - Both the balance sheet and the income statement
  - Both the income statement and the statement of retained earnings