Review for Test 1: INCLUDES CHAPTERS 1, 2 & 3 (MW Class)

Name_______________________________

The following review includes 100 questions. On the test students will answer 33 questions selected from the review.

TRUE/FALSE. Write 'T' if the statement is true and 'F' if the statement is false.

TRUE/FALSE. Write 'T' if the statement is true and 'F' if the statement is false.

1) Accounting is the information system that measures business activity, processes the data into reports, and communicates the results to decision makers. 1)

2) Accounting is "the language of business." 2)

3) Managerial accounting focuses on information for decision makers outside the company. 3)

4) Business owners use accounting information to set goals, evaluate progress toward those goals, and take corrective action. 4)

5) Outside investors often use accounting information to decide whether to invest in a business. 5)

6) Generally accepted auditing standards are the rules that govern public accounting information. 6)

7) The AICPA’s Code of Professional Conduct for Accountants provides guidance to CPAs in the performance of their work. 7)

8) Most companies set standards of ethical conduct for their employees. 8)

9) Accountants record transactions in inflation-adjusted dollars. 9)

10) Cash, merchandise inventory, furniture, and land are all examples of assets. 10)

11) Many liabilities have the word "receivable" in their titles. 11)

12) The owners' claims to the assets of the business are called liabilities. 12)

13) One purpose of business is to increase owner's equity. 13)

14) A business owner purchases equipment by executing a written promise for the future payment of $6,000. The written promise of future payment is an account payable to this business. 14)

15) Liabilities are amounts owed to parties inside and outside the business. 15)

16) Claims to the assets of an entity come from two sources: liabilities and expenses. 16)

17) Owner withdrawals decrease owner's equity when the owner takes assets out of the business for personal use. 17)

18) An expense transaction grows the business, increasing assets and owner's equity. 18)
19) The income statement presents a summary of an entity's revenues and expenses for a period of time.

20) In the heading of a balance sheet, the date or time period covered is a year ending on the date of the financial statements

MULTIPLE CHOICE. Choose the one alternative that best completes the statement or answers the question.

21) Accounting is the information system that provides information to various users. What process(es) does this include?
   A) processing the data into reports
   B) communicating the results to decision makers
   C) measuring business activity
   D) all of the above

22) Which of the following statements best describes managerial accounting?
   A) Managerial accounting focuses on outside investors and lenders that are not part of day-to-day management.
   B) Managerial accounting focuses on information for internal decision making.
   C) Managerial accounting provides information for people outside the company.
   D) None of these statements is true of managerial accounting.

23) Which of the following types of decision makers use accounting information to make business decisions?
   A) business owners
   B) creditors
   C) investors
   D) all of the above

24) Many organizations have contributed to the process of creating and/or using generally accepted accounting principles. Which of the following organizations has the primary responsibility for formulating accounting standards?
   A) CMA
   B) AICPA
   C) SEC
   D) FASB

25) Which of the following is a licensed accountant who serves the general public rather than one particular company?
   A) FASB
   B) SEC
   C) CMA
   D) CPA

26) Accountants often refer to GAAP. What do the letters GAAP stand for when discussing accounting?
   A) Global accommodation accounting principles.
   B) Generate accurate accounting policies.
   C) Generally accepted accounting principles.
   D) Grandma's awesome apple pie.

27) Accounting information may be generated for a variety of purposes. The key product(s) of accounting is (are) which of the following documents?
   A) Remittance advices
   B) Spreadsheets
   C) Workpapers
   D) Financial statements

28) Businesses can be organized in a variety of forms. The types of business forms found in the U.S. include all of the following except one. Which one is NOT included?
   A) Tax shelter
   B) Partnership
   C) Corporation
   D) Proprietorship
A corporation is owned by shareholders or stockholders.

Limited liability partnership

A limited liability partnership possesses which of the following characteristics?
A) If a corporation cannot pay its debts, lenders can take the owners' personal assets to satisfy the obligations.
B) A corporation is an "artificial person" in the eyes of the law.
C) A corporation is owned by shareholders or stockholders.
D) Ownership is divided into individual shares.

Corporate ownership is a very popular type of ownership in the United States. Which of the following is a major reason that corporate ownership is popular?
A) The life of a corporation is limited by the death of an owner.
B) Corporate shareholders have limited liability for the debts of the corporation.
C) Most corporations are small or medium-sized.
D) A corporation is usually managed by the owners.

A partnership possesses which of the following characteristics?
A) A partnership joins two or more individuals as co-owners.
B) If a partnership cannot pay its debts, lenders cannot take the owners' personal assets to satisfy the obligations.
C) A partnership is owned by shareholders or stockholders.
D) None of the above is a characteristic of a partnership.

A proprietorship possesses which of the following characteristics?
A) A proprietorship joins two or more individuals as co-owners.
B) If a proprietorship cannot pay its debts, lenders cannot take the owners' personal assets to satisfy the obligations.
C) A proprietorship has a single owner.
D) None of the above is a characteristic of a partnership.

A limited liability partnership possesses which of the following characteristics?
A) A limited liability partnership is an "artificial person" in the eyes of the law.
B) A limited liability partnership joins two or more individuals as co-owners.
C) If a limited liability partnership cannot pay its debts, lenders cannot take the owners' personal assets to satisfy the obligations.
D) All of the above are true.

A limited liability company possesses which of the following characteristics?
A) If a limited liability company cannot pay its debts, lenders cannot take the owners' personal assets to satisfy the obligations.
B) A limited liability company is an "artificial person" in the eyes of the law.
C) A limited liability company joins one or more individuals as co-owners.
D) All of the above are characteristics of a limited liability company.

Caleb Brown has owned and operated a bicycle sales and repair shop for many years. Which of the following business types would provide the owner's personal assets with protection from product liability exposure?
A) Limited liability partnership  B) Partnership
C) Limited liability company  D) Proprietorship
36) Dylan Chase is a CPA and is one of the tax partners in a CPA practice. One of Dylan's partners sometimes takes very aggressive positions when auditing their clients. Which of the following business types would provide Dylan's personal assets with protection from malpractice liability for his partners' aggressive auditing tactics?

A) Proprietorship
B) Limited liability company
C) Limited liability partnership
D) Partnership

37) Phillip and Reed have developed a new technology for home computer systems. However, they need to raise a large amount of capital to build the production and support facilities to market their product successfully. Which of the following business types would be the most likely to attract enough investors to provide the company with the necessary capital to begin production?

A) Partnership
B) Proprietorship
C) Limited liability partnership
D) Corporation

38) Which of the following statements best defines accounting financial statements?

A) Financial statements are the verbal statements made to business news organizations by chief financial officers.
B) Financial statements process information into reports.
C) Financial statements are documents that report on a business in monetary terms, providing information to help people make informed business decisions.
D) Financial statements are the information system that measures business activities.

39) The primary objective of financial reporting is to provide information useful for making investment and lending decisions. To be useful, information must possess certain characteristics. Which of the following is NOT one of the basic characteristics that accounting information must possess to be useful.

A) relevance
B) reliability
C) an owner's equity section
D) comparability

40) Which of the following concepts (or principles) would be most likely to require that a person with three different businesses keep three different checking accounts?

A) going-concern concept
B) reliability concept
C) entity concept
D) cost principle

41) Which of the following is a correct accounting equation?

A) Assets + Revenue = Liabilities + Expenses
B) Assets + Liabilities = Owner's equity
C) Assets = Liabilities + Owner's equity
D) Assets + Revenue = Owner's equity

42) Owner's equity is $150,000 and total liabilities are $90,000. What would total assets be?

A) $180,000
B) $60,000
C) $240,000
D) $300,000

43) A liability is paid with cash. How does paying this liability affect the accounting equation?

A) Assets decrease; liabilities decrease
B) Liabilities decrease; owner's equity increases
C) Assets increase; liabilities increase
D) Assets increase; liabilities decrease
44) Which of the following amounts appears on both the statement of owner's equity and the balance sheet?
   A) ending owner's equity  
   B) net income  
   C) total assets  
   D) total revenues

45) Which of the following is the detailed record of the changes in a particular asset, liability, or owner's equity?
   A) Trial balance  
   B) Ledger  
   C) Account  
   D) Journal

46) Which of the following journal entries would be recorded if Jane Brown started a company by depositing cash of $6,000 in the company's bank account?
   A) Jane Brown, Capital  
      Cash  
      6,000  
   B) Cash  
      Jane Brown, Capital  
      6,000  
   C) Accounts Payable  
      Cash  
      6,000  
   D) Jane Brown, Capital  
      Accounts Payable  
      6,000

47) Which of the following journal entries would be recorded if a business purchased equipment for $2,500 cash and supplies for $450 cash?
   A) Cash  
      Equipment  
      Supplies  
      2,950  
   B) Cash  
      Equipment  
      Accounts Receivable  
      2,500  
      450  
      2,950  
   C) Equipment  
      Supplies  
      Cash  
      2,500  
      450  
      2,950  
   D) Equipment  
      Cash  
      Supplies  
      2,950  
      2,500  
      450

48) Refer to Case 2.1. What is the balance in Cash?
   A) $6,450  
   B) $8,450  
   C) $8,150  
   D) $7,850

49) Refer to Case 2.1. What is the balance in Accounts Receivable?
   A) $1,000  
   B) $4,000  
   C) $8,500  
   D) $7,000
50) Refer to Case 2.1. What is the balance in Notes Payable?
   A) $7,000     B) $4,000     C) $4,500     D) $1,000

51) Refer to Case 2.1. What is the balance in Service Revenue?
   A) $3,150     B) $3,000     C) $1,000     D) $4,000

52) Refer to Case 2.1. What is the balance in Rent Expense?
   A) $3,150     B) $3,000     C) $700      D) $2,700

53) Which of the following journal entries would be recorded if a business performed services for $400 cash and $1,000 on account?
   A) Cash  400
            Accounts Receivable  1,000
            Service Revenue  1,400
   B) Cash  1,400
            Accounts Receivable  1,000
            Service Revenue  400
   C) Service Revenue  1,000
            Cash  400
            Accounts Receivable  1,400
   D) Service revenue  1,400
            Cash  1,000
            Accounts Payable  400

54) Which of the following is the book (or printout) holding all the accounts?
   A) Journal  B) Ledger  C) Account  D) Trial balance

55) Which of the following is the chronological record of transactions?
   A) Ledger  B) Trial balance  C) Journal  D) Account

56) Which of the following is a list of all the accounts with their balances?
   A) Account  B) Ledger  C) Trial balance  D) Journal

57) Which of the following accounts is NOT an example of an asset?
   A) Cash  B) Building  C) Accounts Receivable  D) Notes Payable

58) Which of the following accounts is NOT an example of a liability?
   A) Accounts Payable  B) Wages Payable  C) Notes Payable  D) Accounts Receivable

59) Which of the following accounts is NOT an example of owner's equity?
   A) Cash  B) Revenue  C) Withdrawals  D) Capital

60) Accountants record transactions first in which of the following?
   A) Journal  B) Chart of accounts  C) Ledger  D) Trial balance
61) After initially recording a transaction, the data is then copied, or posted, to which of the following?
   A) Journal  B) Trial balance  C) Chart of accounts  D) Ledger

62) Which of the following accounts is an asset?
   A) Prepaid Expenses  B) Service Revenue  C) Accounts Payable  D) Salary Expense

63) Which of the following accounts is a liability?
   A) Salary Expense  B) Service Revenue  C) Accounts Payable  D) Prepaid Expenses

64) Which of the following accounts is an owner's equity account?
   A) Capital  B) Accrued Liability  C) Accounts Payable  D) Prepaid Expense

65) The accounting process of copying a transaction from the journal to the ledger is which of the following?
   A) Proofing  B) Posting  C) Journalizing  D) Footing

66) A chart of accounts is which of the following?
   A) A list of all the accounts with their balances.  B) A book (or printout) holding all the accounts.
   C) A list of all the accounts with their account numbers.  D) A chronological record of transactions.

67) Which of the following groups of accounts have a normal debit balance?
   A) Assets and liabilities  B) Revenues and expenses  C) Liabilities and owner's equity  D) Assets and expenses

68) Which of the following accounts increase due to a credit?
   A) Cash  B) Owner's Capital  C) Accounts Receivable  D) Both A and C increase when credited.

69) Which of the following accounts decrease due to a credit?
   A) Cash  B) Owner's Capital  C) Accounts Payable  D) Both A and B decrease when credited.

70) Which of the following accounts increase due to a debit?
   A) Cash  B) Interest Payable  C) Prepaid Insurance  D) Both A and C increase when debited.

71) Which of the following accounts decrease due to a debit?
   A) Prepaid Insurance  B) Interest Payable  C) Cash  D) Both A and B decrease when debited.

72) An owner invests $20,000 in her business by depositing the cash in the business's checking account. Which of the following occurs?
   A) Cash is credited for $20,000.  B) Cash is debited for $20,000.
   C) Owner's capital is debited for $20,000.  D) Both B and C.
73) A business purchases equipment for cash of $8,000. Which of the following occurs?
   A) Cash is credited for $8,000.        B) Cash is debited for $8,000.
   C) Equipment is debited for $8,000.    D) Both A and C.

74) A business makes a cash payment of $12,000 to a creditor. Which of the following occurs?
   A) Cash is credited for $12,000.        B) Cash is debited for $12,000.
   C) Accounts payable is credited for $12,000.    D) Both A and C.

75) A business completes services for $16,000 on account. Which of the following occurs?
   A) Cash is debited for $16,000.        B) Accounts receivable is debited for $16,000.
   C) Service revenue is credited for $16,000.    D) Both B and C.

76) A business pays $500 cash for supplies. Which of the following occurs?
   A) Cash is debited for $500.        B) Accounts payable is credited for $500.
   C) Supplies is debited for $500.    D) Both B and C.

77) A business receives cash in payment of accounts receivable. Which of the following occurs?
   A) An asset is debited and an asset is credited.
   B) A liability is debited and a liability is credited.
   C) An asset is debited and a liability is credited.
   D) An asset is credited and a liability is debited.

78) An owner withdraws cash from his business. The cash will be used for personal purposes. Which of the following occurs?
   A) An asset is credited and a liability is debited.
   B) An asset is debited and an owner's equity account is credited.
   C) An asset is credited and an owner's equity account is debited.
   D) An asset is debited and a liability is credited.

79) A business borrows cash by issuing a note payable. Which of the following occurs?
   A) An asset is debited and a liability is credited.
   B) A liability is debited and a liability is credited.
   C) An asset is debited and an asset is credited.
   D) An asset is credited and a liability is debited.

80) The owner withdraws cash from the business. How does this withdrawal affect the accounting equation?
   A) Assets decrease; owner's equity decreases
   B) No effect on the assets, liabilities, or owner's equity
   C) Assets decrease; owner's equity increases
   D) Assets increase; liabilities decrease

81) Assets are $150,000 and total liabilities are $90,000. What would total owner's equity be?
   A) $60,000        B) $240,000        C) $300,000        D) $180,000

82) Assets are $270,000 and owner's equity is $90,000. What would liabilities be?
   A) $180,000        B) $270,000        C) $360,000        D) $60,000
83) Under the accrual method of accounting, service revenue is recorded at which of the following times?  
   A) When the services are completed  
   B) When payment for the services is received  
   C) At the end of the accounting period  
   D) Both A and B

84) Under the accrual method of accounting, an expense is recorded at which of the following times?  
   A) When payment for the expense is made  
   B) When the expense is incurred  
   C) At the end of the accounting period  
   D) Both A and C

85) Which of the following is the revenue principle?  
   A) The principle that ensures that information is reported at regular intervals.  
   B) The principle that determines when to record expenses.  
   C) The principle that determines when to record revenue.  
   D) None of the above.

86) Which of the following is the matching principle?  
   A) The principle that ensures that information is reported at regular intervals.  
   B) The principle that determines when to record expenses.  
   C) The principle that determines when to record revenue.  
   D) None of the above.

87) Robert Rogers, CPA, completed accounting services in December. A bill was mailed on December 30. A check arrived in the mail and was deposited on January 5. The revenue principle would require that which of the following accounts appear on the balance sheet for December 31?  
   A) Accounting Expense  
   B) Accounts Receivable  
   C) Service Revenue  
   D) Accounts Payable

88) An accrued expense is which of the following?  
   A) An expense that the business has incurred but not yet paid  
   B) An expense that has been paid and incurred  
   C) An expense that will be incurred and paid in the future  
   D) An expense that the business has paid but not yet incurred

89) Accrued revenue is which of the following?  
   A) Revenue that the business has earned but not collected  
   B) Revenue that has been collected and earned  
   C) Revenue that the business has collected but not yet earned  
   D) Revenue that will be collected and earned in the future

90) Salaries payable is an example of which of the following?  
   A) An accrued expense  
   B) Unearned revenue  
   C) Accrued revenue  
   D) A prepaid expense

91) The adjusting entry to record depreciation expense accomplishes which of the following?  
   A) Decreases a liability and increases an expense  
   B) Increases an asset and increases an expense  
   C) Increases a contra-asset and increases an expense  
   D) Decreases a liability and increases a revenue
92) The beginning balance in the Supplies account was $3,000. Purchases of supplies during the year were $25,000. An inventory of supplies at year-end revealed that the ending balance in the Supplies account is $1,500. What is the amount of the adjusting entry?
   A) $25,000  B) $26,500  C) $1,500  D) $3,000

93) A business acquires equipment for $140,000 on January 1. The equipment has a life of seven years. Which of the following is the adjusting entry required on December 31, 2008?
   A) Debit $20,000 to Depreciation Expense, credit $20,000 to Equipment
   B) Debit $140,000 to Depreciation Expense, credit $140,000 to Accumulated Depreciation
   C) Debit $140,000 to Equipment, credit $140,000 to Cash
   D) Debit $20,000 to Depreciation Expense, credit $20,000 to Accumulated Depreciation

94) What type of account is Accumulated Depreciation and what is its normal balance?
   A) Revenue, debit  B) Liability, credit  C) Contra asset, credit  D) Expense, debit

95) What type of account is Unearned Revenue and what is its normal balance?
   A) Revenue, debit  B) Liability, credit  C) Asset, credit  D) Asset, debit

96) Financial statements can be prepared from which of the following?
   A) A general ledger  B) An adjusted trial balance  C) An unadjusted trial balance  D) A general journal

97) Which of the following reports a company’s results of operations?
   A) Balance sheet  B) Adjusted trial balance  C) Statement of owner’s equity  D) Income statement

98) How do the adjusting entries differ from other journal entries?
   A) Adjusting entries never affect cash.
   B) Adjusting entries debit or credit at least one income statement account and at least one balance sheet account.
   C) Adjusting entries are made only at the end of the period.
   D) All of the above.

99) What type of account is Prepaid Rent and what is its normal balance?
   A) Asset, debit  B) Liability, credit  C) Expense, debit  D) Revenue, credit

100) A prepaid expense is which of the following?
    A) An expense that the business has paid but not yet incurred
    B) An expense that the business has incurred but not yet paid
    C) An expense that has been paid and incurred
    D) An expense that will be incurred and paid in the future