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

1) 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 decisions makers
   C) measuring business activity
   D) all of the above

2) 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

3) 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

4) 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.

5) 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

6) 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.

7) 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
8) 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

9) 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

10) 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

11) 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

12) 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

13) 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

14) 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 6,000  
       Cash 6,000  
    B) Cash 6,000  
       Jane Brown, Capital 6,000  
    C) Accounts Payable 6,000  
       Cash 6,000  
    D) Jane Brown, Capital 6,000  
       Accounts Payable 6,000
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 2,950
   Equipment 2,500
   Supplies 450

B) Cash 2,500
   Equipment 450
   Accounts Receivable 2,950

C) Equipment 2,500
   Supplies 450
   Cash 2,950

D) Equipment 2,950
   Cash 2,500
   Supplies 450

Case 2.1
The following transactions have been journalized and posted to the proper accounts.

1. Mark Call invested $7,000 cash in his new design services business.
2. Mark paid the first month's rent with $700.
3. Mark purchased equipment by paying $2,000 down and executing a note payable for $4,500.
4. Mark purchased supplies for $850 cash.
5. Mark billed a client for $4,000 of design services completed
6. Mark received $3,000 of the account for the completed services.

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

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

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

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

20) Refer to Case 2.1. What is the balance in Rent Expense?
   A) $3,150   B) $3,000   C) $700   D) $2,700
21) 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  

22) Which of the following is the book (or printout) holding all the accounts?

A) Journal  
B) Ledger  
C) Account  
D) Trial balance

23) Which of the following is the chronological record of transactions?

A) Ledger  
B) Trial balance  
C) Journal  
D) Account

24) Which of the following is a list of all the accounts with their balances?

A) Account  
B) Ledger  
C) Trial balance  
D) Journal

25) Which of the following accounts is NOT an example of an asset?

A) Cash  
B) Building  
C) Accounts Receivable  
D) Notes Payable

26) Which of the following accounts is NOT an example of a liability?

A) Accounts Payable  
B) Wages Payable  
C) Notes Payable  
D) Accounts Receivable

27) Which of the following accounts is NOT an example of owner’s equity?

A) Cash  
B) Revenue  
C) Withdrawals  
D) Capital

28) Accountants record transactions first in which of the following?

A) Journal  
B) Chart of accounts  
C) Ledger  
D) Trial balance

29) 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

30) Which of the following accounts is an asset?

A) Prepaid Expenses  
B) Service Revenue  
C) Accounts Payable  
D) Salary Expense

31) Which of the following accounts is a liability?

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

33) 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

34) 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.

35) 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

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

37) 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.

38) 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.

39) 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.

40) 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.

41) 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.

42) 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.
43) 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.  

44) 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.  

45) 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.  

46) 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 debited and an owner’s equity account is debited.  
D) An asset is debited and a liability is credited.  

47) 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.  

48) 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  

49) 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  

50) 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  

51) If a company is using the accrual method of accounting, when is revenue recorded?  
A) When services are rendered, even though cash may be received at a later date.  
B) When cash is received, even though services may be rendered at a later date.  
C) Only when cash is received at the completion of the services.  
D) Only when cash is received after the completion of the services.
52) Under which of the following methods of accounting is an expense recorded when it is incurred, regardless of when cash is paid?

A) Cash
B) Accrual
C) Deferral
D) Receivable

53) 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

54) Which of the following is the matching principle?

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

55) What debit is required as part of an adjusting entry when a prepaid expense is initially recorded as an expense?

A) A debit to an asset account
B) A debit to an unearned expense account
C) A debit to a contra account
D) A debit to a deferred revenue account

56) What credit is required as part of an adjusting entry when an accrued expense is initially recorded as an expense?

A) A credit to an unearned revenue account
B) A credit to a liability account
C) A credit to a revenue account
D) A credit to a contra liability

57) An accrued expense is which of the following?

A) An expense that will be incurred and paid in the future
B) An expense that the business has paid but not yet incurred
C) An expense that the business has incurred but not yet paid
D) An expense that has been paid and incurred

58) Unearned rent is an example of which of the following?

A) Accrued revenue
B) An accrued expense
C) Unearned revenue
D) A prepaid expense

59) The Supplies account for Vulcan Detail Company had a balance of $3,200 at the beginning of the year. Additional supplies of $13,400 were purchased during the year. A physical count of the ending inventory of supplies revealed that $5,900 of supplies were still on hand. What was total supplies expense for the year?

A) $9,100
B) $10,700
C) $4,300
D) $16,400

60) The adjusting entry to record depreciation expense accomplishes which of the following?

A) Decreases a liability and increases a revenue
B) Increases an asset and increases an expense
C) Increases a contra-asset and increases an expense
D) Decreases a liability and increases an expense

61) 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) $3,000
D) $1,500
62) 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 $140,000 to Equipment, credit $140,000 to Cash
B) Debit $20,000 to Depreciation Expense, credit $20,000 to Equipment
C) Debit $20,000 to Depreciation Expense, credit $20,000 to Accumulated Depreciation
D) Debit $140,000 to Depreciation Expense, credit $140,000 to Accumulated Depreciation

63) What type of account is an accrued expense and what is its normal balance?

A) Revenue, credit  B) Asset, debit
C) Expense, debit  D) Liability, credit

64) Financial statements can be prepared from which of the following?

A) A general journal  B) An unadjusted trial balance
C) An adjusted trial balance  D) A general ledger

65) How do the adjusting entries differ from other journal entries?

A) Adjusting entries never affect cash.
B) Adjusting entries are made only at the end of the period.
C) Adjusting entries debit or credit at least one income statement account and at least one balance sheet account.
D) All of the above.

66) The adjusting process has two purposes. Which of the following represents these two purposes?

A) 1) Measure net income or loss and 2) Update the balance sheet
B) 1) Compute ending capital and 2) Journalize the period’s activity
C) Both A and B are correct
D) None of the above

67) Where does net income appear on a work sheet?

A) Net income appears in the Income Statement credit column and in the Balance Sheet debit column.
B) Net income appears only in the Balance Sheet credit column.
C) Net income appears only in the Income Statement debit column.
D) Net income appears in the Balance Sheet credit column and in the Income Statement debit column.

68) Totals of various columns from the worksheet are shown below. What is net income or loss?

<table>
<thead>
<tr>
<th>Income Statement</th>
<th>Balance Sheet</th>
</tr>
</thead>
<tbody>
<tr>
<td>Debit</td>
<td>Credit</td>
</tr>
<tr>
<td>$6,800</td>
<td>$9,500</td>
</tr>
</tbody>
</table>

A) Net income of $2,700  B) Net loss of $6,800
C) Net income of $4,700  D) Net loss of $2,700
69) In which of the columns of the worksheet would the owner's capital account be found?  
A) In the Trial Balance credit column, the Adjusted Trial Balance credit column and the Balance Sheet credit column  
B) In the Trial Balance debit column, the Adjusted Trial Balance debit column and the Balance Sheet debit column  
C) In the Balance Sheet credit column and the Income Statement debit column  
D) In the Balance Sheet debit column and the Income Statement credit column

70) In which of the columns of the worksheet would the depreciation expense account be found?  
A) In the Trial Balance credit column, the Adjusted Trial Balance debit column and the Income Statement debit column  
B) In the Adjusted Trial Balance debit column and the Income Statement debit column  
C) In the Trial Balance credit column, the Adjusted Trial Balance credit column and the Income Statement credit column  
D) In the Adjusted Trial Balance credit column and the Income Statement credit column

71) In which of the columns of the worksheet would the service revenue account be found?  
A) In the Adjusted Trial Balance debit column and the Income Statement credit column  
B) In the Adjusted Trial Balance debit column and the Income Statement debit column  
C) In the Trial Balance credit column, the Adjusted Trial Balance credit column and the Income Statement credit column  
D) In the Trial Balance debit column, the Adjusted Trial Balance debit column and the Income Statement debit column

72) Which of the following accounts will be closed by debiting the Income Summary?  
A) Depreciation Expense  
B) Accumulated Depreciation  
C) Service Revenue  
D) Accounts Payable

73) Revenues total $10,200. Expenses total $7,300. Owner's withdrawals total $2,600. What is the balance in the Income Summary account after closing net income or loss to the owner's capital account?  
A) Balance of $0  
B) Credit balance of $2,900  
C) Debit balance of $2,900  
D) Credit balance of $300

74) Which of the following accounts has a remaining non-zero balance after the closing process is completed.  
A) The Accumulated Depreciation account has a non-zero balance.  
B) The Depreciation Expense account has a non-zero balance.  
C) The Service Revenue account has a non-zero balance.  
D) The Owner's Withdrawals account has a non-zero balance.

75) Net income for the year is $25,000. The owner withdrew $3,000 per month for personal living expenses. Which of the following occurs?  
A) The Owner's Capital account increases by $11,000.  
B) The Owner's Capital account decreases by $11,000.  
C) The Owner's Capital account decreases by $22,000.  
D) The Owner's Capital account increases by $22,000.

76) Which account has a balance equal to net income immediately before it is closed?  
A) The Income Summary account  
B) The Owner's Capital account  
C) The Owner's Withdrawal account  
D) The Net Income account
77) To what account is the balance in the Income Summary closed?
   A) The Income Summary is closed to the owner's capital or Retained Earnings account.
   B) The Income Summary is closed to the net income account.
   C) The Income Summary is closed to the owner's withdrawals account.
   D) None of the above.

78) Which of the following accounts are temporary accounts that must be closed at the end of the year?
   A) Revenues, expenses and owner's capital
   B) Assets, liabilities and owner's equity
   C) Revenues, expenses and owner's withdrawals
   D) Assets, liabilities and owner's withdrawals

79) Revenues total $10,200. Expenses total $7,300. Owner's withdrawals total $2,600. What is the balance in the Income Summary account prior to closing net income or loss to the owner's capital account?
   A) Credit balance of $300
   B) Balance of $0
   C) Debit balance of $2,900
   D) Credit balance of $2,900

80) Which of the following does NOT appear on the work sheet?
   A) Adjusting entries
   B) The adjusted trial balance
   C) The trial balance
   D) Closing entries

81) Which of the following accounts would appear in the Income Statement credit column?
   A) Prepaid insurance
   B) Unearned service revenue
   C) Service revenue earned
   D) Depreciation expense

82) Which of the following statements is a TRUE statement concerning the work sheet?
   A) The work sheet is a ledger.
   B) The work sheet is a document used to summarize data to prepare the financial statements.
   C) The work sheet is a journal.
   D) The work sheet is a financial statement.

83) Which of the following is the correct order of the steps of preparing the work sheet?
   I. Compute each account's adjusted balance by combining the trial balance and adjustment figures. Enter each account's adjusted amount in the Adjusted Trail Balance columns.
   II. Enter the account titles and their unadjusted balances in the Trial Balance columns of the work sheet and total the columns.
   III. Extend (copy) the asset, liability, and owner's equity amounts from the Adjusted Trial Balance to the Balance Sheet columns. Copy the revenue and expense amounts to the Income Statement columns. Total the statement columns.
   IV. Enter the adjusting entries in the Adjustments columns, and total the amounts.
   V. On the income statement column, compute net income. Enter net income as the balancing amount on the income statement and balance sheet columns. Total the income statement and balance sheet columns.
   A) III, V, IV, I, II
   B) I, II, III, IV, V
   C) IV, I, III, V, II
   D) II, IV, I, III, V

84) Assets and liabilities are classified as either current or long-term to show their relative liquidity.
85) Accountants often use a work sheet—a document with several columns—to summarize data for the financial statements.

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

86) To what account is the balance in the owner’s withdrawals account closed?  
A) The owner’s withdrawals account is closed to the income summary account.  
B) The owner’s withdrawals account is closed to the net income account.  
C) The owner’s withdrawals account is closed to the cash account.  
D) The owner’s withdrawals account is closed to the owner’s capital account.

87) Which of the following is an asset that is expected to be converted to cash, sold, or consumed during the next year (or normal operating cycle if longer)?
A) Liquid asset  
B) Long-term asset  
C) Quick asset  
D) Current asset

88) Which of the following is a debt that is due to be paid with cash, or with goods and services within the next year (or normal operating cycle if longer)?
A) Liquid liability  
B) Long-term liability  
C) Current liability  
D) Quick liability

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

89) The first step in creating a work sheet is to enter the adjusting entries in the Adjustments columns.

90) Prepaid rent is usually a long-term asset.

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

91) Which of the following accounts would appear in the Balance Sheet debit column?
A) Prepaid insurance  
B) Unearned service revenue  
C) Service revenue earned  
D) Depreciation expense

92) A business pays salaries of $140,000 on the first and fifteenth day of every month. Which of the following is the adjusting entry required on December 31, 2008?
A) Debit $140,000 to Salaries Expense, credit $140,000 to Salaries Receivable  
B) Debit $140,000 to Salaries Expense, credit $140,000 to Salaries Payable  
C) Debit $140,000 to Salaries Receivable, credit $140,000 to Salaries Payable  
D) No adjusting entry required

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

94) A prepaid expense is which of the following?
A) An expense that will be incurred and paid in the future  
B) An expense that has been paid and incurred  
C) An expense that the business has paid but not yet incurred  
D) An expense that the business has incurred but not yet paid
95) Accrued revenue is which of the following?
   A) Revenue that has been collected and earned
   B) Revenue that the business has collected but not yet earned
   C) Revenue that will be collected and earned in the future
   D) Revenue that the business has earned but not collected

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

97) What credit is required as part of an adjusting entry when an accrued revenue is initially recorded as revenue?
   A) A credit to a contra liability
   B) A credit to an unearned revenue account
   C) A credit to a liability account
   D) A credit to a revenue account

98) What debit is required as part of an adjusting entry when unearned income is initially recorded as revenue?
   A) A debit to an asset account
   B) A debit to a contra account
   C) A debit to an unearned expense account
   D) A debit to a deferred revenue account

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

100) Under which of the following methods of accounting is an expense recorded ONLY when cash is paid?
     A) Receivable
     B) Cash
     C) Deferral
     D) Accrual