ACC 201 - Financial Accounting
Review for Test 1 (includes chapters 1, 2 and 3)
From the following list of questions, I will pick 27 multiple choice questions (each worth 1.5 points = 40.5 points) and one short question (worth 9.5 points). The short questions will be similar to the ones that I have provided here but I will change the numbers. I have provided the answers for the short questions and for the multiple choice questions that require calculations. For all other multiple choice questions, please read chapters 1, 2 and 3 to find the answers.

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

1) Accounting guidelines are formulated by:
   A) the Securities and Exchange Commission
   B) the Financial Accounting Standards Board
   C) the American Institute of Certified Public Accountants
   D) the American Accounting Association

2) According to the FASB, the primary objective of financial reporting is to provide information:
   A) to the Securities and Exchange Commission
   B) regarding the assets and liabilities of a business
   C) useful for making investing and lending decisions
   D) regarding the revenues and expenses of a business

3) The principle which states that assets acquired by the business should be recorded at their exchange price is the:
   A) matching principle
   B) revenue recognition principle
   C) cost principle
   D) objectivity principle

4) The accounting equation can be stated as:
   A) Expenses = Liabilities - Owner's Equity
   B) Owner's Equity = Assets + Liabilities
   C) Assets - Liabilities = Owner's Equity
   D) Liabilities = Revenue + Owner's Equity

5) If owner's equity is $150,000 and total liabilities are $90,000, then total assets would be:
   A) $60,000
   B) $240,000
   C) $225,000
   D) $135,000

6) If total liabilities are $200,000 and total assets are $325,000, owner's equity would be:
   A) $200,000
   B) $525,000
   C) $125,000
   D) impossible to determine from the given data

7) The amount owed by an entity when it makes a purchase on account is termed a(n):
   A) accounts receivable
   B) note receivable
   C) expense
   D) accounts payable
8) The payment of an account payable would:
   A) decrease assets and increase owner's equity
   B) have no effect on total assets
   C) decrease assets and decrease liabilities
   D) decrease assets and increase liabilities

9) The income statement presents a summary of the:
   A) assets and liabilities of an entity
   B) cash inflows and outflows of an entity
   C) revenues and expenses of an entity
   D) changes that occurred in the owner's equity of an entity

10) Net income appears on which of the following statements?
    A) income statement and statement of owner's equity
    B) statement of owner's equity and balance sheet
    C) statement of cash flows and balance sheet
    D) none of the above

11) Liabilities are reported on the:
    A) statement of owner's equity
    B) income statement and balance sheet
    C) income statement
    D) balance sheet

12) A business purchases equipment for cash of $85,000. This transaction will cause:
    A) capital to be credited for $85,000
    B) cash to be debited for $85,000
    C) equipment to be credited for $85,000
    D) cash to be credited for $85,000

13) Providing services for $2,000 on account will cause:
    A) accounts receivable to be credited for $2,000
    B) accounts payable to be credited for $2,000
    C) service revenue to be debited for $2,000
    D) service revenue to be credited for $2,000

14) The withdrawal of cash by the owner for personal use would include a:
    A) debit to the owner's withdrawals account
    B) credit to the owner's withdrawals account
    C) debit to the cash account
    D) credit to the owner's capital account

15) Purchasing supplies and office equipment on account would include a:
    A) debit to supplies and office equipment; credit to cash
    B) debit to office equipment; credit to supplies and accounts payable
    C) debit to supplies and office equipment; credit to accounts payable
    D) debit to accounts payable; credit to office equipment and supplies

16) Performing a service for $500 cash and $700 on account would include a:
    A) debit to service revenue for $1,200
    B) debit to accounts receivable for $700
    C) credit to service revenue for $500
    D) debit to cash for $1,200
17) The copying of amounts from the journal to the appropriate ledger accounts is referred to as: A) journalizing    B) analyzing    C) posting    D) balancing

18) A trial balance is: A) another name for the balance sheet    B) the first step in the accounting cycle    C) another name for the chart of accounts    D) a list of all accounts with their balances

19) A trial balance contains which types of accounts? A) assets, liabilities and owner’s equity accounts    B) revenue and expense accounts    C) assets and revenue accounts    D) all ledger accounts

20) The purchase of equipment for cash would: A) have no effect on total assets    B) increase total assets and decrease liabilities    C) increase total assets    D) decrease both liabilities and owner’s equity

21) The account debited when supplies are purchased for cash is: A) capital    B) accounts payable    C) supplies    D) cash

22) Given the following transactions, what is the balance in the cash account? 1. The owner started the company by investing $9,000 cash. 2. The company paid $3,000 for equipment. 3. The company performed $1,500 of services on account. 4. The company paid expenses totaling $800. A) $5,200    B) $9,200    C) $8,500    D) $10,500

23) Given the following transactions, what is the balance in the accounts receivable account? 1. The owner started the company by investing $9,000 cash. 2. The company paid $3,000 for equipment. 3. The company performed $1,500 of services on account. 4. The company paid expenses totaling $800. A) $800    B) $0    C) $9,000    D) $1,500

24) The account credited when cash is received from a customer on account is: A) accounts receivable    B) cash    C) accounts payable    D) service revenue

25) The owner withdrawing cash for personal use would: A) have no effect on assets    B) decrease net income    C) increase assets    D) decrease owner’s equity

26) Which of the following accounts are expected to have normal debit balances? A) assets and expenses    B) assets and liabilities    C) liabilities and equity    D) liabilities and expenses
27) Which of the following accounts are expected to have normal credit balances?  
A) liabilities and expenses  
B) assets and expenses  
C) liabilities and assets  
D) revenue and liabilities

28) Which of the following records the payment of the current month's rent bill for a business?  
A) debit to rent expense and a credit to accounts payable  
B) debit to cash and a credit to rent expense  
C) debit to accounts payable and a credit to cash  
D) debit to rent expense and a credit to cash

29) Assets are reported on the:  
A) balance sheet  
B) statement of owner's equity  
C) income statement and balance sheet  
D) statement of owner's equity and balance sheet

30) GAAP stands for:  
A) generally accepted auditing practices  
B) generally accrued accounting principles  
C) generally accrued auditing procedures  
D) generally accepted accounting principles

31) The business entity concept means that:  
A) the business entity is considered a separate entity apart from the owner or owners  
B) the business entity is organized according to the rules determined by the IRS  
C) the business entity is organized according to the rules determined by the FASB  
D) the owner of the business entity and the business entity are treated the same from a legal and accounting viewpoint

SHORT ANSWER. Write the word or phrase that best completes each statement or answers the question.

32) Explain the rules for debits and credits. Use the accounting equation as a basis for your explanation and indicate the specific rules for debits and credits as they apply to the various accounts. Your answer should include the rules for all types of accounts affecting owner's equity.
State the account to be debited and the account to be credited for the following transactions. Choose from the following list of accounts: cash, accounts receivable, supplies, equipment, accounts payable, note payable, capital, withdrawals, service revenue, utilities expense, and rent expense.

a) Owner invests cash into the business.
b) Performed services for cash.
c) Purchased equipment for cash.
d) Purchased supplies for cash.
e) Paid rent for the current period.
f) Purchased supplies on account.
g) Performed services on account.
h) Received cash on account.
i) Paid a creditor on account.
j) Purchased equipment by issuing a note payable.

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<th>Debit</th>
<th>Credit</th>
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34) State whether the account should be debited or credited and the normal balance of the account for the items listed below:

<table>
<thead>
<tr>
<th>Account</th>
<th>Recorded as a debit or credit</th>
<th>Normal balance of the account</th>
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<tbody>
<tr>
<td>a) Increase in Acc. receivable</td>
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<td>b) Increase in Salary expense</td>
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<td>c) Increase in Withdrawals</td>
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<td>d) Increase in Capital</td>
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<td>e) Decrease Supplies</td>
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<td>f) Decrease in Acc. receivable</td>
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<td>g) Decrease in Note payable</td>
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<td>h) Decrease in Note receivable</td>
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<td>i) Decrease in Utilities expense</td>
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<td>j) Decrease in Land</td>
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35) Prepare journal entries in good form for the following transactions.

a) Owner invested land valued at $18,800 and cash of $6600 into the business.

b) Purchased office supplies on account, $850.

c) Paid $100 utilities for the current month.

d) Billed a client $4200 for services rendered.

e) Received $1200 on account.

f) Owner withdrew $1600 to pay personal expenses.

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

36) The two most widely used bases of accounting are:

A) financial and managerial
B) accrual and cash
C) cash and financial
D) accrual and managerial

37) An accountant records revenue when earned under which basis of accounting?

A) tax
B) accrual
C) financial
D) deferrak

38) Accrued expenses are expenses that have:

A) not been paid but incurred
B) been paid and incurred
C) been paid but not incurred
D) not been paid nor incurred

39) Accrued revenue has:

A) not been earned but has been received
B) been earned but not received
C) not been earned nor received
D) been earned and received

40) Adjusting for prepaid insurance is an example of a(n)?

A) deferred revenue
B) deferred expense
C) accrued revenue
D) accrued expense

41) On September 1, 20X4, Four Brothers Company pays $48,000 cash for six months rent. The balance in prepaid rent on December 31, 20X4, after adjustment, would be:

A) $6,000
B) $24,000
C) $16,000
D) $12,000

42) The supplies account shows a beginning balance of $3,000. Assume the supplies account shows a debit for $5,500 representing supplies purchased during the period and the supplies inventory at year-end is $1,700. The adjusting entry involves a:

A) debit to supplies expense for $6,800
B) debit to supplies for $1,700
C) debit to supplies for $6,800
D) debit to supplies expense for $1,700

43) A company began operations and purchased $6,000 of supplies. By year-end, $2,700 was still on hand. The adjusting entry at year end would include a:

A) debit to supplies of $6,000
B) debit to supplies expense for $2,700
C) credit to supplies for $3,300
D) credit to supplies for $2,700

44) Equipment with a cost of $115,000 has a useful life of 4 years and no salvage value. Using straight-line depreciation, what is the book value after 3 years?

A) $28,750
B) $38,333
C) $103,000
D) $86,250
45) Adjusting entries always involve a(n):
A) asset account and a revenue account
B) liability account
C) asset account and a liability account
D) balance sheet account and an income statement account

46) The type of account and normal balance of accumulated depreciation is:
A) contra equity; debit
B) contra asset; credit
C) equity; credit
D) liability; credit

47) A liability that arises from an expense that the business has incurred but has not yet paid is called a(n):
A) accrued expense
B) deferred revenue
C) accrued asset
D) deferred expense

48) Combining the amounts from the unadjusted trial balance with the adjustments gives rise to the:
A) adjusted trial balance
B) balance sheet
C) unadjusted trial balance
D) income statement

49) Financial statements are prepared from:
A) an adjusted trial balance
B) the general journal
C) the previous year's financial statements
D) an unadjusted trial balance

50) The balance sheet reports the:
A) assets, equity, and revenues at a certain point in time
B) assets, expenses, and revenues for a period of time
C) assets, liabilities, and equity at a certain point in time
D) assets, liabilities, and equity for a period of time

51) The financial statement which lists the revenue and expense accounts is referred to as the:
A) statement of cash flows
B) statement of owner's equity
C) income statement
D) balance sheet

SHORT ANSWER. Write the word or phrase that best completes each statement or answers the question.

52) Prepare adjusting entries for the following items on December 31, the end of the fiscal year for Cleaner Carpets.

a) Prepaid rent expired during the year, $3700
b) Supplies used during the year, $2500
c) Salaries owed to employees at year-end, $2720
d) Unearned service revenue earned, $2140
e) Services performed but unbilled, $3530
f) Depreciation on equipment, $3200