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Accounting 201
Examination 1
Kimmel et al 3rd ed.

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Business Ethics are the cornerstone of a successful free enterprise economy. Personal ethics are the foundation for all personal intercourse. In the University setting, ethical behavior is an essential component of academic honesty. Please read and sign the following statement.

This examination represents my sole effort. I have neither given nor received aid in the completion of this examination.

Signature: _____

Printed Name: _____

1. Accounting information is relevant to business decisions because it
 - a. has been verified by external audit.
 - b. is prepared on an annual basis.
 - c. confirms or corrects prior expectations.
 - d. is neutral in its representations.

2. The matching principle matches
 - a. customers with businesses.
 - b. expenses with revenues.
 - c. assets with liabilities.
 - d. creditors with businesses.

3. The right to receive money in the future is called a(n)
 - a. account payable.
 - b. account receivable.
 - c. liability.
 - d. revenue.

4. A debit is not the normal balance for which account listed below?
 - a. Dividends
 - b. Cash
 - c. Accounts Receivable
 - d. Service Revenue

5. The recording process occurs
 - a. once a year.
 - b. once a month.
 - c. repeatedly during the accounting period.
 - d. infrequently in a manual accounting system.

6. At the end of the fiscal year, the usual adjusting entry for depreciation on equipment was omitted. Which of the following statements is true?
 - a. Net income will be overstated for the current year.
 - b. Total assets will be understated at the end of the current year.
 - c. The balance sheet and income statement will be misstated but the Retained Earnings statement will be correct for the current year.
 - d. Total assets will be understated at the end of the current year.

7. The ability of a business to pay obligations that are expected to become due within the next year or operating cycle is
 - a. leverage.
 - b. liquidity.
 - c. profitability.
 - d. wealth.

8. If a resource has been consumed but a bill has not been received at the end of the accounting period, then
- an expense should be recorded when the bill is received.
 - an expense should be recorded when the cash is paid out.
 - an adjusting entry should be made recognizing the expense.
 - it is optional whether to record the expense before the bill is received.
9. The closing entry process consists of closing
- all asset and liability accounts.
 - out the Retained Earnings account.
 - all permanent accounts.
 - all temporary accounts.
10. Accrued expenses are
- paid and recorded in an asset account before they are used or consumed.
 - paid and recorded in an asset account after they are used or consumed.
 - incurred but not yet paid or recorded.
 - incurred and already paid or recorded.
11. A revenue account
- is increased with a debit.
 - is decreased with a credit.
 - is increased with a credit.
 - has a normal balance of a debit.
12. Which of the following errors, each considered individually, would cause the trial balance to be out of balance?
- A payment of \$148 to a creditor was posted as a debit to accounts payable and a debit of \$148 to cash.
 - Cash received from a customer on account was posted as a debit of \$350 to cash and as a credit of \$350 to accounts payable.
 - A payment of \$59 for supplies was posted as a debit of \$95 to supplies and a credit of \$95 to cash.
 - A transaction was not posted.
13. Expenses are incurred
- only on rare occasions.
 - to produce assets.
 - to produce liabilities.
 - to generate revenues.
14. The payment of a liability
- decreases assets and stockholders' equity.
 - increases assets and decreases liabilities.
 - decreases assets and increases liabilities.
 - decreases assets and liabilities.

Use the information below to answer questions 15-19.

The trial balance for Houley Corporation appears as follows:

Houley Corporation
Trial Balance
December 31, 2003

Cash	\$	300	
Accounts Receivable		500	
Prepaid Insurance		50	
Supplies		150	
Office Equipment		4,000	
Accumulated Depreciation, Office Equipment	\$		800
Accounts Payable			300
Common Stock			1,000
Retained Earnings			1,400
Service Revenue			3,000
Salaries Expense		1,000	
Rent Expense		<u>500</u>	
	\$	6,500	\$ 6,500

15. If service for \$125 had been performed but not billed, the adjusting entry to record this would include a
- debit to Service Revenue for \$125.
 - credit to Unearned Service Revenue for \$125.
 - credit for Service Revenue for \$125.
 - debit to Unearned Revenue for \$125.
16. If on December 31, 2003, supplies on hand were \$20, the adjusting entry would contain a
- debit to Supplies for \$20.
 - credit to Supplies for \$20.
 - debit to Supplies Expense for \$130.
 - credit to Supplies Expense for \$130.
17. If the estimated depreciation for office equipment were \$800, the adjusting entry would contain a
- credit to Accumulated Depreciation, Office Equipment for \$800.
 - credit to Depreciation Expense, Office Equipment for \$800.
 - debit to Accumulated Depreciation, Office Equipment for \$800.
 - credit to Office Equipment for \$800.
18. If as of December 31, 2003, rent of \$100 for December had not been recorded or paid, the adjusting entry would include a
- credit to Accumulated Rent for \$100.
 - credit to Cash for \$100.
 - debit to Rent Payable for \$100
 - debit to Rent Expense for \$100

19. If on December 31, 2003, the insurance still unexpired amounted to \$20, the adjusting entry would contain a
- debit to Prepaid Insurance for \$30.
 - credit to Prepaid Insurance for \$20.
 - debit to Insurance Expense for \$30.
 - credit to Prepaid Insurance for \$20.
20. If the sum of the debit column equals the sum of the credit column in a trial balance, it indicates
- no errors have been made.
 - no errors can be discovered.
 - that all accounts reflect correct balances.
 - the mathematical equality of the accounting equation.
21. Which of the following is not considered an asset?
- Equipment
 - Dividends
 - Accounts receivable
 - Inventory
22. The liability created by a business when it purchases coffee beans and coffee cups on credit from suppliers is termed a(n)
- account payable.
 - account receivable.
 - revenue.
 - expense.
23. Adherence to the procedure of choosing the accounting method that will be least likely to overstate assets and income is an example of the constraint of
- relevance.
 - reliability.
 - conservatism.
 - comparability.
24. Draxon Company borrowed \$10,000 from the bank signing a 6%, 3-month note on September 1. Principal and interest are payable to the bank on December 1. If the company prepares monthly financial statements, the adjusting entry that the company should make for interest on September 30, would be
- Debit Interest Expense, \$600; Credit Interest Payable, \$600.
 - Debit Interest Expense, \$50; Credit Interest Payable, \$50.
 - Debit Note Payable, \$600; Credit Cash, \$600.
 - Debit Cash, \$150; Credit Interest Payable, \$150.

25. On a classified balance sheet, current assets are customarily listed
- in alphabetical order.
 - with the largest dollar amounts first.
 - in the order in which they are expected to be converted into cash.
 - in the order of acquisition.
26. A practical decision to expense small capital expenditures rather than record them as property, plant, and equipment and depreciate them probably is made on the basis of the characteristic of
- consistency.
 - materiality.
 - full disclosure.
 - conservatism.
27. Which of the following is -not- one of the three forms of business organization?
- corporations.
 - partnerships.
 - proprietorships.
 - investors.

Use the information below to answer questions 28 - 31.

Canton Office Supplies
Balance Sheet
December 31, 2004

Cash	\$ 65,000	Accounts Payable	\$ 70,000
Prepaid Insurance	40,000	Salaries Payable	10,000
Accounts Receivable	50,000	Mortgage Payable	<u>90,000</u>
Inventory	70,000		
Land held for future use	75,000	Total Liabilities	\$ 170,000
Land	90,000		
Building	\$ 100,000	Common Stock	\$ 120,000
Less Accum. Depr.	(20,000)	Retained Earnings	<u>250,000</u>
		Total stockholders' equity	\$ 370,000
Trademark	<u>70,000</u>		
Total Assets	\$ 540,000	Total Liabilities and SHE	<u>\$ 540,000</u>

28. The total dollar amount of assets to be classified as investments is
- \$0.
 - \$150,000.
 - \$75,000.
 - \$180,000.
29. The total amount of working capital is
- \$145,000.
 - \$305,000.
 - \$75,000.
 - \$60,000.

30. The total dollar amount of assets to be classified as current assets is
- \$270,000.
 - \$225,000.
 - \$190,000.
 - \$155,000.
31. The total dollar amount of assets to be classified as property, plant and equipment is
- \$320,000.
 - \$170,000.
 - \$245,000.
 - \$190,000.
32. Dividends appear on
- the retained earnings statement only.
 - the income statement only.
 - both the retained earnings statement and the balance sheet.
 - the balance sheet only.
33. Dividends paid
- increase assets.
 - increase expenses.
 - decrease revenues.
 - decrease retained earnings.
34. The purpose of the post-closing trial balance is to
- prove that no mistakes were made.
 - prove the equality of the permanent account balances that are carried forward into the next accounting period.
 - prove the equality of the temporary account balances that are carried forward into the next accounting period.
 - list all the balance sheet accounts in alphabetical order for easy reference.
35. Stockholders' equity is increased by
- dividends.
 - revenues.
 - expenses.
 - liabilities.
36. A debit to an asset account indicates a(n)
- error.
 - credit was made to a liability account.
 - decrease in the asset.
 - increase in the asset.

37. Which of the following is not an advantage of the corporate form of business organization?
- No personal liability
 - Easy to transfer ownership
 - Favorable tax treatment
 - Easy to raise funds
38. Reese Company purchased office supplies costing \$4,000 and debited Office Supplies for the full amount. At the end of the accounting period, a physical count of office supplies revealed \$1,600 still on hand. The appropriate adjusting journal entry to be made at the end of the period would be
- Debit Office Supplies Expense, \$1,600; Credit Office Supplies, \$1,600.
 - Debit Office Supplies, \$2,400; Credit Office Supplies Expense, \$2,400.
 - Debit Office Supplies Expense, \$2,400; Credit Office Supplies, \$2,400.
 - Debit Office Supplies, \$1,600; Credit Office Supplies Expense, \$1,600.
39. Goods purchased for future use in the business, such as supplies, are called
- prepaid expenses.
 - revenues.
 - stockholders' equity.
 - liabilities.
40. Retained earnings at the end of the period is equal to
- retained earnings at the beginning of the period plus net income minus liabilities.
 - retained earnings at the beginning of the period plus net income minus dividends.
 - net income.
 - assets plus liabilities.
41. The usual sequence of steps in the recording process is to
- analyze each transaction, enter the transaction in the journal, and transfer the information to the ledger accounts.
 - analyze each transaction, enter the transaction in the ledger, and transfer the information to the journal.
 - analyze each transaction, enter the transaction in the book of accounts, and transfer the information to the journal.
 - analyze each transaction, enter the transaction in the book of original entry, and transfer the information to the journal.
42. Which of the following describes the classification and normal balance of the unearned revenue account?
- Asset, debit
 - Liability, credit
 - Revenues, credit
 - Expense, debit

43. Buying assets needed to operate a business is an example of a(n)
- delivering activity.
 - financing activity.
 - investing activity.
 - operating activity.
44. On July 1 the Winter Shoe Store paid \$6,000 to Ace Realty for 6 months rent beginning July 1. Prepaid Rent was debited for the full amount. If financial statements are prepared on July 31, the adjusting entry to be made by the Winter Shoe Store is
- Debit Rent Expense, \$6,000; Credit Prepaid Rent, \$1,000.
 - Debit Prepaid Rent, \$1,000; Credit Rent Expense, \$1,000.
 - Debit Rent Expense, \$1,000; Credit Prepaid Rent, \$1,000.
 - Debit Rent Expense, \$6,000; Credit Prepaid Rent, \$6,000.
45. The Dividends account
- appears on the income statement along with the expenses of the business.
 - must show transactions every accounting period.
 - is increased with debits and decreased with credits.
 - is not a proper subdivision of stockholders' equity.
46. Adjusting entries are required
- because some costs expire with the passage of time and have not yet been journalized.
 - when the company's profits are below the budget.
 - when expenses are recorded in the period in which they are earned.
 - when revenues are recorded in the period in which they are earned.
47. Paying a cash dividend will
- increase retained earnings.
 - decrease retained earnings.
 - increase common stock.
 - decrease common stock.
48. Which accounts normally have credit balances?
- Revenues, liabilities, and dividends.
 - Revenues, liabilities, and assets.
 - Revenues, liabilities, and retained earnings.
 - Revenues, liabilities, and expenses.

Use the information below from the Income Statement of the Dirt Poor Laundry Service to answer 49- 51

Revenues		
Laundry Service Revenues		\$ 3,500
Expenses		
Wages expense	\$ 950	
Advertising expense	500	
Rent expense	300	
Supplies expense	200	
Insurance expense	<u>100</u>	
Total expenses	2,050	<u> </u>
Net Income		\$ 1,450

49. The entry to close the expense accounts includes a
- credit to Income Summary for \$2,050.
 - debit to Income Summary for \$2,050.
 - debit to Wages Expense for \$950.
 - credit to Retained Earnings for \$2,050.
50. The entry to close the Income Summary includes a
- credit to Income Summary for \$1,450.
 - debit to Income Summary for \$1,450.
 - debit to Retained Earnings for \$1,450.
 - credit to Common Stock for \$1,450.
51. The entry to close the Laundry Service Revenue account includes a
- debit to Laundry Service Revenue for \$3,500.
 - credit to Laundry Service Revenue for \$3,500.
 - debit to Income Summary for \$3,500.
 - debit to Retained Earnings for \$3,500.
52. If total liabilities increased by \$5,000, then
- assets must have decreased by \$5,000.
 - stockholders' equity must have increased by \$5,000.
 - assets must have increased by \$5,000, or stockholders' equity must have decreased by \$5,000.
 - assets and stockholders' equity each increased by \$2,500.
53. The accounting equation may be expressed as:
- Assets = Stockholders' Equity - Liabilities.
 - Assets = Liabilities + Stockholders' Equity.
 - Assets + Liabilities = Stockholders' Equity.
 - Assets + Stockholders' Equity = Liabilities.
54. The best definition of -assets- is the
- cash owned by the company.
 - collections of resources belonging to the company and the claims on these resources.
 - owners' investment in the business.
 - resources belonging to a company have future benefit to the company.

55. Which of the following is an asset?
- a. Service revenue
 - b. Notes payable
 - c. Supplies expense
 - d. Prepaid rent
56. The purchase of an asset on credit
- a. increases assets and stockholders' equity.
 - b. increases assets and liabilities.
 - c. decreases assets and increases liabilities.
 - d. leaves total assets unchanged.
57. An account will have a credit balance if the
- a. credits exceed the debits.
 - b. first transaction entered was a credit.
 - c. debits exceed the credits.
 - d. last transaction entered was a credit.
58. Which of the following correctly identifies normal balances of accounts?
- a. Assets Debit
Liabilities Credit
Common Stock Credit
Revenues Debit
Expenses Credit
 - b. Assets Debit
Liabilities Credit
Common Stock Credit
Revenues Credit
Expenses Credit
 - c. Assets Credit
Liabilities Debit
Common Stock Debit
Revenues Credit
Expenses Debit
 - d. Assets Debit
Liabilities Credit
Common Stock Credit
Revenues Credit
Expenses Debit
59. The left side of an account is
- a. blank.
 - b. a description of the account.
 - c. the debit side.
 - d. the balance of the account.

60. A company spends \$20 million dollars for an office building. Over what period should the cost be written off?
- When the \$20 million is expended in cash
 - All in the first year
 - Over the useful life of the building
 - After \$20 million in revenue is earned
61. An awareness of the normal balances of accounts would help you spot which of the following as an error in recording?
- A debit balance in the Dividends account
 - A credit balance in an expense account
 - A credit balance in a liabilities account
 - A credit balance in a revenue account
62. Net income results when
- Assets > Liabilities.
 - Revenues = Expenses.
 - Revenues > Expenses.
 - Revenues < Expenses.
63. The normal balance of any account is the
- left side.
 - right side.
 - side which increases that account.
 - side which decreases that account.
64. A business organized as a corporation
- is not a separate legal entity in most states.
 - requires that stockholders be personally liable for the debts of the business.
 - is owned by its stockholders.
 - has tax advantages over a proprietorship or partnership.
65. An item is considered material if
- it costs a lot of money.
 - it is of a tangible nature.
 - it is likely to influence the decision of an investor or creditor.
 - the cost of reporting the item is greater than its benefits.
66. Relevant accounting information
- is information that has been audited.
 - must be reported within the operating cycle or one year, whichever is longer.
 - has been objectively determined.
 - is information that is capable of making a difference in a business decision.
67. A furniture factory's employees work overtime to finish an order that is sold on January 31. The office sends a statement to the customer in early February and payment is received by mid-February.

- The overtime wages should be expensed in
- January.
 - February.
 - the period when the workers receive their checks.
 - either January or February depending on when the pay period ends.
68. Most business enterprises in the United States are
- proprietorships and partnerships.
 - partnerships.
 - corporations.
 - government units.
69. The difference between the cost of a depreciable asset and its related accumulated depreciation is referred to as the
- market value of the asset.
 - blue book value of the asset.
 - book value of the asset.
 - depreciated difference of the asset.
70. Buying and selling products are examples of
- operating activities.
 - investing activities.
 - financing activities.
 - delivering activities.
71. The general term employed to indicate an expense that has not been paid or revenue that has not been received and has not yet been recognized in the accounts is
- contra asset.
 - prepayment.
 - asset.
 - accrual.
72. Which of the following is an advantage of corporations relative to partnerships and sole proprietorships?
- Reduced legal liability for investors.
 - Harder to transfer ownership.
 - Lower taxes.
 - Most common form of organization.
73. The unearned revenue account is classified as a(n)
- asset.
 - revenue.
 - expense.
 - liability.
74. Javier's Tune-Up Shop follows the revenue recognition principle. Javier services a car on August 31. The customer picks up the vehicle on September 1 and mails the payment to Javier on

- September 5. Javier receives the check in the mail on September 6. When should Javier show that the revenue was earned?
- August 31
 - August 1
 - September 5
 - September 6
75. The time period assumption states that
- a transaction can only affect one period of time.
 - estimates should not be made if a transaction affects more than one time period.
 - adjustments to the enterprise's accounts can only be made in the time period when the business terminates its operations.
 - the economic life of a business can be divided into artificial time periods.
76. A company that receives money in advance of performing a service
- debits cash and credits unearned fees.
 - debits unearned fees and credits accounts payable
 - debits cash and credits prepaid fees.
 - debits cash and credits accounts receivable.
77. A credit to a liability account
- indicates an increase in the amount owed to creditors.
 - indicates a decrease in the amount owed to creditors.
 - is an error.
 - must be accompanied by a debit to an asset account.
78. Which of the following statements is not true?
- Comparability means using the same accounting principles from year to year within a company.
 - Reliability is the quality of information that gives assurance that it is free of error or bias.
 - Relevant accounting information must be capable of making a difference in the decision.
 - The FASB's overriding criterion is that the accounting rule adopted should be the one that generates the most useful financial information for making a decision.
79. When collection is made on Accounts Receivable,
- total assets will remain the same.
 - stockholders equity will increase.
 - total assets will increase.
 - total assets will decrease.
80. Accounts often need to be adjusted because
- there are never enough accounts to record all the transactions.
 - many transactions affect more than one time period.
 - there are always errors made in recording transactions.
 - management can't decide what they want to report.

81. The right side of an account
- is the correct side.
 - reflects all transactions for the accounting period.
 - shows all the balances of the accounts in the system.
 - is the credit side.
82. At the end of the fiscal year, the usual adjusting entry for accrued salaries owed to employees was omitted. Which of the following statements is true?
- Salary Expense for the year is overstated.
 - Liabilities at the end of the year are understated.
 - Assets at the end of the year are understated.
 - Stockholders' equity at the end of the year is understated.
83. A \$20,000 machine is purchased by paying \$5,000 cash and signing a note payable for the remainder. The journal entry should include a
- credit to note payable.
 - debit to cash.
 - credit to notes receivable.
 - credit to machinery.
84. A post-closing trial balance will show
- zero balances for all accounts.
 - zero balances for balance sheet accounts.
 - only balance sheet accounts.
 - only income statement accounts.
85. A list of accounts and their balances at a given time is called a(n)
- journal.
 - posting.
 - trial balance.
 - income statement.
86. An adjusting entry
- affects two balance sheet accounts.
 - affects two income statement accounts.
 - affects a balance sheet account and an income statement account.
 - is always a compound entry.
87. Closing entries
- are prepared before the financial statements.
 - reduce the number of permanent accounts.
 - cause the revenue and expense accounts to have zero balances.
 - summarize the activity in every account.
88. Under the accrual basis of accounting
- cash must be received before revenue is recognized.
 - net income is calculated by matching cash outflows against cash inflows.

- c. events that change a company's financial statements are recognized in the period they occur rather than in the period in which cash is paid or received.
 - d. the ledger accounts must be adjusted to reflect a cash basis of accounting before financial statements are prepared under generally accepted accounting principles.
89. McCloud Realty Company received a check for \$21,000 on July 1, which represents a 6-month advance payment of rent on a building it rents to a client. Unearned Rental Revenue was credited for the full \$21,000. Financial statements will be prepared on July 31. McCloud Realty should make the following adjusting entry on July 31
- a. Debit Unearned Rental Revenue, \$3,500; Credit Rental Revenue, \$3,500.
 - b. Debit Rental Revenue, \$3,500; Credit Unearned Rental Revenue, \$3,500.
 - c. Debit Unearned Rental Revenue, \$21,000; Credit Rental Revenue, \$21,000.
 - d. Debit Cash, \$21,000; Credit Rental Revenue, \$21,000.
90. Borrowing money is an example of a(n)
- a. delivering activity.
 - b. financing activity.
 - c. investing activity.
 - d. operating activity.
91. The concept that a business has a reasonable expectation of remaining in business for the foreseeable future is called the
- a. economic entity assumption.
 - b. monetary unit assumption.
 - c. time period assumption.
 - d. going concern assumption.
- Johnny's Detailing Shop started the year with total assets of \$60,000 and total liabilities of \$40,000. During the year the business recorded \$105,000 in revenues, \$55,000 in expenses, and dividends of \$10,000.
92. Stockholders' equity at the end of the year was
- a. \$60,000.
 - b. \$50,000.
 - c. \$40,000.
 - d. \$45,000.
93. Which of the following groups uses accounting information to determine whether the company can pay its obligations?
- a. Investors in common stock
 - b. Marketing managers
 - c. Creditors
 - d. Chief Financial Officer

94. Which of the following is not a qualitative characteristic associated with reliability?
- Verifiable
 - Conservatism
 - Neutral
 - Faithful representation
95. One of the accounting concepts upon which adjustments for prepayments and accruals are based is
- matching.
 - cost.
 - monetary unit.
 - economic entity.
96. Generally accepted accounting principles
- are accounting rules formulated by the Internal Revenue Service.
 - are sound in theory but rarely used in real life.
 - are accounting rules that are recognized as a general guide for financial reporting.
 - have eliminated all errors in accounting.
97. Which of the following items has no effect on retained earnings?
- Expense
 - Dividends
 - Land purchase
 - Revenue
98. An accumulated depreciation account
- is a contra liability account.
 - increases on the debit side.
 - is offset against total assets on the balance sheet.
 - has a normal credit balance.
99. Which of the following is not an accounting assumption?
- Integrity
 - Going concern
 - Time period
 - Economic entity
100. If the retained earnings account increases from the beginning of the year to the end of the year, then
- net income is less than dividends.
 - a net loss is less than dividends.
 - additional investments are less than net losses.
 - net income is greater than dividends.