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BA 201
Practice Examination 3K

Instructions:
1. This practice examination covers conceptual issues you should be familiar with at the completion of Accounting Principals
2. Ask the for clarification on questions you do not understand.

1. Generally accepted accounting principles were established by Congress in 1933 and are updated annually by the American Accounting Association.

   a. true b. false

2. A business is an accounting entity separate from its owners, regardless of whether it is a single proprietorship, a partnership, or a corporation.

   a. true b. false

3. The basic purpose of accounting is to:
   a. Provide financial information about an economic entity.
   b. Develop the types of information best suited to specific managerial decisions.
   c. Record the financial transactions of an economic entity.
   d. Determine the taxable income of individuals and business entities.

4. An accounting system can be designed to accomplish all the following EXCEPT:
   a. Ensure that the business operates profitably.
   b. Provide information to managers, owners, and outside parties about the solvency of the business.
   c. Summarize financial activities in a manner useful to decision-makers.
   d. Record financial activity in monetary terms.

5. The principal function of CPAs is to:
   a. Audit income tax returns to determine if taxpayers have underpaid their income taxes.
   b. Conduct audits to determine whether the employees of a business are performing their jobs honestly and efficiently.
   c. Advise individual investors on stock market investments.
   d. Perform audits to determine the fairness and reliability of a company's financial statements.

6. Management accountants primarily are concerned with developing information:
   a. For use in income tax returns.
   b. Suited to the needs of stockholders, creditors, and other external decision makers.
   c. Suited to the needs of decision makers within the organization.
   d. In conformity with generally accepted accounting principles.

7. "Statements of Financial Accounting Standards" are developed by:
   a. The Financial Accounting Standards Board.
   b. Certified Public Accountants.
   c. The Securities and Exchange Commission.
   d. The Internal Revenue Service.

8. A balance sheet is designed to show:
   a. How much a business is worth.
   b. The profitability of the business during the current year.
   c. The assets, liabilities, and owners' equity in the business at a particular date.
   d. The cost of replacing the assets and of paying off the liabilities at December 31.

9. At the end of the first year of operations assets are $18,000 and owners' equity is $12,000.
   a. The owners must have invested $12,000 to start the business.
   b. The business must be operating profitably.
   c. Liabilities are $6,000.
   d. Liabilities are $30,000.

10. The valuation of assets in the balance sheet is based on:
    a. What is would cost to replace the asset.
    b. Cost, because cost is usually factual and capable of being verified.
    c. Current fair market value as established by independent appraisers.
    d. Cost, because in the event of liquidation, the assets would be sold at an amount equal to their original cost.

11. The rules of debit and credit may be summarized as follows:
    a. Accounts on the left side of the balance sheet are increased by debits, whereas accounts on the right side of the balance sheet are increased by credits.
    b. The balance of a ledger account is increased by debit entries and is decreased by credit entries.
    c. Accounts on the left side of the balance sheet are increased by credits, whereas accounts on the right side of the balance sheet are increased by debits.
    d. The balance of a ledger account is increased by credit entries and is decreased by debit entries.

12. All the information about one particular business transaction can most easily be found by looking in the:
    a. Ledger.
    b. Journal.
    c. Trial balance.
    d. Financial statements.

13. The purchase of office equipment at a cost of $3,200 by an immediate payment of $700 and agreement to pay the balance within 60 days is recorded by:
    a. A debit of $700 to Office Equipment, a debit of $2,500 to Accounts Receivable, and a credit of $3,200 to Accounts Payable.
    b. A debit of $3,200 to Office Equipment, a credit of $700 to Cash, and a credit of $2,500 to Accounts Receivable.
    c. A debit of $2,500 to Accounts Receivable, a debit of $700 to Cash, and a credit of $3,200 to Office Equipment.
    d. A debit of $3,200 to Office Equipment, a credit of $700 to Cash, and a credit of $2,500 to Accounts Payable.

14. Which of the following errors would NOT be disclosed by preparation of a trial balance?
    a. An error was made in computing the balance of the Cash account.
    b. A journal entry included a debit to the Equipment account for $1,400, but this amount was erroneously posted as $4,100.
    c. During the posting process, a $2,000 debit to Cash was accidentally entered in the credit side of the Cash account.
    d. None of the journal entries recorded on the last day of the year had been posted to the ledger.

15. The reason that both expenses and dividends are recorded by debit entries is that:
    a. All dividend and expense transactions involve offsetting credit entries to the Cash account.
    b. Both expenses and dividends are offset against revenue in the income statement.
    c. Both expenses and dividends reduce stockholders' equity.
    d. The statement is untrue--expenses are recorded by debits, but dividends are recorded by credits to the Dividends account.

16. Which of the following entries will result in a decrease in assets and owners' equity?
    a. The entry to record depreciation expense.
    b. The entry to record revenue earned but not yet received.
    c. The entry to record the earned portion of rent received in advance.
    d. The entry to record accrued wages payable.

17. Which of the following amounts would NOT appear in the Income Statement columns of a work sheet for a merchandising company?
    a. Ending inventory.
    b. Transportation-in.
    c. Purchases.
    d. Gross profit.

18. Which of the following is NOT a temporary owners' equity account?
    a. Sales Returns and Allowances.
    b. Income Taxes Expense.
    c. Retained Earnings.
    d. Purchases.

19. Which of the following is NOT true about a periodic inventory system?
    a. Cost of goods sold is equal to the cost of goods available for sale minus the amount of the ending inventory.
    b. The Inventory account remains unchanged until the end of the period.
    c. Ending inventory is determined by taking a physical inventory.
    d. Cost of goods sold is recorded on a daily basis when merchandise is sold.

20. The inventory at the beginning of the year appears in the year-end financial statements as:
    a. A selling expense.
    b. An addition to the cost of goods sold section of the income statement.
    c. A current asset.
    d. A deduction from the cost of merchandise available for sale.

21. Internal control is strengthened by an organization plan which makes different persons or departments responsible for different functions such as purchasing, receiving, and payment of invoices.

    a. true b. false

22. If you found that a company's accounting records included an account entitled Purchase Discounts Lost, you could reasonably assume that the company recorded purchase invoices on a net price basis.

    a. true b. false

23. If the Cash Over and Short account has a debit balance at the end of the accounting period, it is shown as miscellaneous revenue in the income statement.

    a. true b. false

24. When an account receivable is determined to be worthless and is written off, the Uncollectible Accounts Expense account is increased.

    a. true b. false

25. When a petty cash fund is in use:
    a. Petty cash is debited only when the fund is replenished.
    b. The general bank account is debited only when this fund is established.
    c. Small payments are made out of cash receipts before they are deposited.
    d. Expenses paid from the fund are recorded when the fund is replenished.

26. The accounting records of Waller Company showed cash of $14,000 at June 30. The balance per the bank statement at June 30 was $15,380. The only reconciling items were deposits in transit of $4,000, outstanding checks totaling $5,600, an NSF check for $200 returned by the bank which Waller had not yet charged back to the customer, and a bank service charge of $20. The preparation of a bank reconciliation should indicate cash owned by Waller at June 30 in the amount of:
    a. $12,400.
    b. $13,580.
    c. $13,780.
    d. $13,800.

27. December 31, before adjusting and closing the accounts, the Allowance for Doubtful Accounts of Wilton Corporation showed a "debit" balance of $4,300. An aging of the accounts receivable indicated the amount probably uncollectible to be $3,900. Under these circumstances, a year-end adjusting entry for uncollectible accounts expense would include a:
    a. Debit to the Allowance for Doubtful Accounts for $400.
    b. Credit to the Allowance for Doubtful Accounts for $400.
    c. Debit to Uncollectible Accounts Expense of $3,900.
    d. Debit to Uncollectible Accounts Expense of $8,200.

28. If a company uses a percentage of net sales in computing the amount of uncollectible accounts expense:
    a. No valuation allowance will be required.
    b. The relationship between revenue and expenses is being stressed more than the valuation of receivables at the balance sheet date.
    c. The existing balance in the Allowance for Doubtful Accounts will be increased sufficiently to equal the probable loss indicated by aging the accounts receivable.
    d. Any past-due accounts will be listed as a separate item in the balance sheet.

29. A conceptual shortcoming in the direct charge-off method of accounting for uncollectible accounts is that this method violates the:
    a. Matching principle.
    b. Cost principle.
    c. Realization principle.
    d. Going-concern assumption.

30. Merchandise was shipped by Sun Wholesale Company to Center Shop on December 30, 19X4. Terms of shipment were F.O.B. shipping point 2/10, n/30. The merchandise arrived at Center Shop on January 2, 19X5. The merchandise should be included as part of inventory of Center Shop in its balance sheet at December 31, 19X4.

    a. true b. false

31. If the beginning inventory is understated by $20,000 and the ending inventory is overstated by $15,000:
    a. Net income will be overstated by $35,000.
    b. Net income will be understated by $5,000.
    c. Net income will be overstated by $5,000.
    d. Net income will be understated by $35,000.

32. The "matching principle" requires recording in each period:

a. All expenses incurred in producing the revenue of the period.
b. A liability for expenses of the period.
c. A current liability for amounts to be paid within one year.
d. All expenses paid in cash during the current period.

33. Which of the following is NOT a characteristic of current liabilities?
    a. They are due within one year or within the operating cycle, whichever is longer.
    b. It is expected that they will be paid from current assets.
    c. They may be replaced with a new short-term liability rather than being paid in cash.
    d. They always are incurred during the current period.

34. Which of the following is not an example of a current liability?
    a. Management fees collected in advance and to be earned during the current period.
    b. The portion of long-term debt due in the current period.
    c. Warranty liability for products carrying a two-year warranty and sold during the current period.
    d. The potential liability incurred when a business discounts a note receivable to a bank during the current period.

35. The employer pays no part of which of the following taxes as it relates to employees' earnings?
    a. Federal income taxes.
    b. FICA taxes.
    c. Federal unemployment taxes.
    d. State unemployment taxes.

36. From the viewpoint of the employer, the amount of social security taxes withheld from an employee's paycheck represents:
    a. A current asset.
    b. A current liability.
    c. Revenue.
    d. Expense.

37. The amounts which a business withholds as taxes from employees' earnings:
    a. Represent payroll taxes expense to the employer.
    b. Are deposited in an interest-bearing bank account until the employee is terminated.
    c. Represent miscellaneous revenue to the employer.
    d. Represent current liabilities to the employer.

38. Jones earns a monthly salary of $5,000, has monthly income taxes withheld of $1,200, and is subject to FICA tax of 7 1/2% on the first $45,000 earned in each calendar year. Jones's take-home pay in January and in December, respectively, will be:
    a. $3,425 and $3,425.
    b. $3,425 and $3,800.
    c. $3,425 and $4,625.
    d. $3,425 and $5,000.

39. Employers do NOT make deductions from employees' paychecks for:
    a. Federal income taxes.
    b. Health insurance.
    c. Federal unemployment taxes.
    d. Social security taxes.

40. The amount recorded by an employer in the Salaries Expense account should be equal to the:
    a. Take-home pay of the employees.
    b. Take-home pay of the employees plus payroll taxes levied on the employer.
    c. Gross earnings of the employees.
    d. Gross earnings of the employees plus payroll taxes levied on the employer.

41. The amounts recorded in Payroll Taxes Expense should consist of:
    a. Unemployment compensation taxes and FICA taxes levied on the employer.
    b. Amounts which the employer is required by law to withhold from employees' earnings.
    c. FICA taxes, FUTA taxes, and income taxes withheld.
    d. Wages and salaries minus amounts withheld from employees plus payroll taxes levied on the employer.

42. A corporation is a legal entity separate from its owners; it may sue and be sued, and it may own property in its own name.

    a. true   b. false

43. A corporation is dissolved whenever a stockholder dies or withdraws from the organization.

    a. true b. false

44. If capital stock is issued by a corporation at a price higher than par value, the excess amount represents income in the period in which the shares of stocks are issued.

    a. true b. false

45. When par value capital stock is issued, Capital Stock is credited with the par value of the shares issued, regardless of whether the issuance price is equal to par, more than par, or less than par.

    a. true b. false

46. The sale by Jones to Smith of 100 shares of the $5 par value stock of Gale Corporation at a price of $60 per share causes no change in the assets of Gale Corporation.

    a. true b. false

47. When a corporation issues capital stock in exchange for assets other than cash, the transaction should be recorded at the par value of the shares issued.

    a. true b. false

48. Preferred stock is so named because it sells at a higher price than does common stock.

    a. true b. false

49. In the event of the liquidation of a corporation, preferred stock ordinarily has preference as to liabilities and common stock has preference as to assets.

    a. true b. false

50. Preferred stockholders generally have the same voting rights as do common stockholders in a corporation.

    a. true b. false

51. Which of the following is NOT a characteristic of the corporate form of organization?
    a. The owners of a corporation cannot lose more than the amount of their investment.
    b. Shares of stock in a corporation are more readily transferable than is an interest in a partnership.
    c. Stockholders have authority to decide by majority vote the amount of dividends to be paid.
    d. The corporation is a very efficient vehicle for obtaining large amounts of capital required for large-scale production.

52. Which of the following is not a characteristic of the corporate form of organization?
    a. Ease of transferring ownership.
    b. Limited liability of owners.
    c. Ease of gathering large amounts of capital.
    d. Owners exercise direct operating control.

53. McGill Corporation is authorized to issue 100,000 shares of $5 par value capital stock. The corporation issued one-half of the stock for cash of $30 per share, earned $40,000 during the first three months of operation, and declared a cash dividend of $10,000. The total paid-in capital of McGill Corporation after three months of operation is:
    a. $250,000.
    b. $500,000.
    c. $1,500,000.
    d. $1,530,000.

54. The term "paid-in capital" means:
    a. All assets other than retained earnings.
    b. Legal capital plus retained earnings.
    c. Amounts invested in a corporation by the stockholders.
    d. Legal capital minus retained earnings.

55. The par value of the common stock of a large listed corporation:
    a. Tends to establish a ceiling for the market price of the stock.
    b. Tends to establish a floor for the market price of the stock.
    c. Represents legal capital and is not related to the market price of the stock.
    d. Is increased by net income and decreased by dividends.

56. The reason that state laws require that the par value of outstanding shares be shown separately from paid-in capital in excess of par is that:
    a. The par value of the stockholders' investment becomes the legal property of the corporation's creditors.
    b. Legal restrictions prohibit the declaration of dividends that would reduce total stockholders' equity below the par value of the outstanding shares.
    c. Par value is useful to investors in determining a fair market value for the stock.
    d. Stockholders may always sell their shares back to the corporation at par value.

57. Jillian Corporation issued 100,000 of $10 par value capital stock at the time of its incorporation. The stock was issued for cash at a price of $12 per share. During the first year of operations the company sustained a net loss of $25,000. The year-end balance sheet would show the balance of the Capital Stock account to be:
    a. $1,200,000.
    b. $950,000.
    c. $1,000,000.
    d. $750,000.

58. If the preferred stock of a corporation is cumulative:
    a. Dividends on preferred stock are guaranteed.
    b. Dividends cannot be declared in an amount less than stated on the stock certificate.
    c. Preferred stockholders participate in dividends paid in excess of a stated amount on the common shares.
    d. Dividends in arrears must be paid on preferred stock before any dividend can be paid on common stock.

59. Which of the following events is most likely to cause a decline in the market price of the preferred stock of a large, profitable, and solvent corporation?
    a. Interest rates rise.
    b. Net income for the year falls short of investor's expectations.
    c. Interest rates decline.
    d. The dividend on common stock is increased.

60. Which of the following is NOT a characteristic of most preferred stock?
    a. Preference as to dividends.
    b. Participating clause.
    c. Preference as to assets in the event of liquidation of the company.
    d. No voting power.

61. "Retained Earnings" represents:
    a. Cash available for dividends.
    b. The amount initially invested in the business by stockholders.
    c. Cash available for expansion and growth.
    d. Income which has been reinvested in the business rather than distributed as dividends to stockholders.

Answers

1	b	41	a
2	a	42	a
3	a	43	a
4	a	44	a
5	d	45	b
6	c	46	b
7	a	47	b
8	c	48	a
9	c	49	a
10	b	50	a
11	a	51	b
12	b	52	a
13	d	53	b
14	d	54	a
15	c	55	a
16	a	56	b
17	d	57	b
18	c	58	a
19	d	59	a
20	b	60	b
21	a	61	b
22	a	62	b
23	b	63	b
24	b	64	b
25	d	65	d
26	c	66	b
27	d	67	d
28	b	68	a
29	a	69	c
30	a	70	c
31	a	71	d
32	a	72	c
33	d	73	c
34	d	74	c
35	a	75	b
36	b	76	c
37	d	77	d
38	b	78	a
39	c	79	b
40	c	80	d