

**Dr. M. D. Chase  
BA 201  
Examination 1J**

**Instructions:**

- 1. Place your Name, Code Number of the Examination and the Examination Number on your Scantron form. Failure to follow these instructions will result in a failing grade on this examination.**
- 2. Select the best answer for each of the following questions.**
- 3. Show complete computations in the space provided next to the questions.**

**Good Luck**

Code 1

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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 transaction which causes a decrease in an asset may also cause an increase in another asset, a decrease in a liability, or a decrease in owners' equity.
  - a. true
  - b. false
  
3. The only business events which are entered in accounting records are those which can be expressed in monetary terms.
  - a. true
  - b. false
  
4. 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
  
5. 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.
  
6. 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.
  
7. Which of the following events is NOT a transaction which would be recorded in a company's accounting records?
  - a. The purchase of equipment for cash.
  - b. The purchase of equipment on account.
  - c. The death of a key executive.
  - d. Issuance of capital stock in exchange for cash.

8. The principal function of CPAs is to:
- Audit income tax returns to determine if taxpayers have underpaid their income taxes.
  - Conduct audits to determine whether the employees of a business are performing their jobs honestly and efficiently.
  - Advise individual investors on stock market investments.
  - Perform audits to determine the fairness and reliability of a company's financial statements.
9. Management accountants primarily are concerned with developing information:
- For use in income tax returns.
  - Suited to the needs of stockholders, creditors, and other external decision makers.
  - Suited to the needs of decision makers within the organization.
  - In conformity with generally accepted accounting principles.
10. The accounting standards and concepts used in the preparation of financial statements are called:
- Certified principles of accounting (CPA).
  - Generally accepted accounting principles (GAAP).
  - Financial accounting standards and boundaries (FASB).
  - Standards enforcing consistency (SEC).
11. "Statements of Financial Accounting Standards" are developed by:
- The Financial Accounting Standards Board.
  - Certified Public Accountants.
  - The Securities and Exchange Commission.
  - The Internal Revenue Service.
12. A balance sheet is designed to show:
- How much a business is worth.
  - The profitability of the business during the current year.
  - The assets, liabilities, and owners' equity in the business at a particular date.
  - The cost of replacing the assets and of paying off the liabilities at December 31.
13. The nature of an asset is BEST described as:
- Something with physical form which is valued at cost in the accounting records.
  - An economic resource owned by a business and expected to benefit future operations.
  - An economic resource representing cash or the right to receive cash in the near future.
  - Something owned by a business that has a ready market value.

14. The balance sheet item which represents the portion of stockholders' equity resulting from profitable operation of the business is:
- Accounts receivable.
  - Cash.
  - Capital stock.
  - Retained earnings.
15. At the end of the first year of operations assets are \$18,000 and owners' equity is \$12,000.
- The owners must have invested \$12,000 to start the business.
  - The business must be operating profitably.
  - Liabilities are \$6,000.
  - Liabilities are \$30,000.
16. The valuation of assets in the balance sheet is based on:
- What it would cost to replace the asset.
  - Cost, because cost is usually factual and capable of being verified.
  - Current fair market value as established by independent appraisers.
  - Cost, because in the event of liquidation, the assets would be sold at an amount equal to their original cost.
17. Which of the following is NOT a generally accepted accounting principle relating to the valuation of assets and discussed in chapter 1?
- The cost principle--in general, assets are valued at cost, rather than at estimated market values.
  - The objectivity principle--accountants prefer to use objective, rather than subjective, information as the basis for accounting information.
  - The safety principle--assets are valued at no more than the value for which they are insured.
  - The going-concern assumption--one reason for valuing assets such as buildings and equipment at cost rather than at their current market values is the assumption that the business will use these assets, rather than sell.
18. The owner of Seafood Restaurant purchased a new personal residence at a cost of \$150,000 and debited this amount to the Buildings account in the restaurant's accounting records. The recording of this transaction in this manner violates the:
- Cost principle.
  - Principle of the business entity.
  - Objectivity principle.
  - Going-concern assumption.
19. Decrease in owners' equity are caused by:
- Purchases of assets and payment of liabilities.
  - Purchases of assets and incurring of liabilities.
  - Payment of liabilities and unprofitable operations.
  - Distributions of assets to owners and unprofitable operations.

20. Which of the following relationships CANNOT be derived from the accounting equation?
- Assets - Liabilities = Owners' Equity.
  - Owners' Equity + Liabilities = Assets.
  - Assets - Owners' Equity = Liabilities.
  - Liabilities + Assets = Owners' Equity.
21. Accounts are usually arranged in the ledger in financial statement order; that is, assets first, followed by liabilities, owners' equity, revenue, and expenses.
- true
  - false
22. If the number of debit entries in an account is greater than the number of credit entries, the account will have a debit balance.
- true
  - false
23. The ledger is sometimes called the book of original entry because it is the accounting record where transactions are first recorded.
- true
  - false
24. A trial balance provides proof that all transactions were correctly journalized and posted to the ledger.
- true
  - false
25. In accounting, the terms "debit" and "credit" indicate, respectively:
- Increase and decrease.
  - Left and right.
  - Decrease and increase.
  - Right and left.
26. The rules of debit and credit may be summarized as follows:
- 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.
  - The balance of a ledger account is increased by debit entries and is decreased by credit entries.
  - 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.
  - The balance of a ledger account is increased by credit entries and is decreased by debit entries.
27. The process of originally recording a business transaction in the accounting records is termed:
- Posting.
  - Footing.
  - Journalizing.
  - Balancing.

28. All the information about one particular business transaction can most easily be found by looking in the:
- Ledger.
  - Journal.
  - Trial balance.
  - Financial statements.
29. Which of the following accounting procedures requires the greater knowledge of generally accepted accounting principles?
- Journalizing business transactions.
  - Posting journal entries to ledger accounts.
  - Preparing a trial balance.
  - Locating errors in a trial balance.
30. Maid-to-Order, a corporation, issued 10,000 shares of stock for \$50,000 cash. Which of the following would be a part of the correct journal entry to record this transaction?
- A debit to the Cash account.
  - A credit to the Stockholders' Equity account.
  - A debit to the Capital Stock account.
  - A debit to the Cash Received account.
31. A-1 Exterminators has a \$2,600 liability to Chemtron Laboratory. When A-1 Exterminators makes a partial payment of \$1,200 on this liability, which of the following is true about the journal entry made by A-1 to record this transaction?
- The Cash Paid Out account is credited \$1,200.
  - The liability account Accounts Payable is credited \$1,400.
  - The Cash account is debited \$1,400.
  - The Accounts Payable account is debited \$1,200.
32. Preparing a journal entry in proper form involves all of the following EXCEPT:
- Listing all accounts debited before any credits.
  - Computing the balances in accounts involved in the transaction.
  - Indicating the date of transaction.
  - Providing a brief written explanation of the transaction.
33. 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 debit of \$700 to Office Equipment, a debit of \$2,500 to Accounts Receivable, and a credit of \$3,200 to Accounts Payable.
  - A debit of \$3,200 to Office Equipment, a credit of \$700 to Cash, and a credit of \$2,500 to Accounts Receivable.
  - A debit of \$2,500 to Accounts Receivable, a debit of \$700 to Cash, and a credit of \$3,200 to Office Equipment.
  - A debit of \$3,200 to Office Equipment, a credit of \$700 to Cash, and a credit of \$2,500 to Accounts Payable.

34. The journal entry to record a particular business transaction includes a debit to a liability account. This transaction is most likely to also include:
- A cash receipt.
  - The purchase of an asset on account.
  - A cash payment.
  - a credit to Accounts Receivable.
35. "Posting" is the process of:
- Transferring debit and credit entries in the journal into the appropriate ledger accounts.
  - Determining that the dollar amount of debit entries recorded in the ledger is equal to the dollar amount of credit entries.
  - Entering information into a computerized data base.
  - Preparing journal entries to describe each business transaction.
36. An employee of J Company made an error in posting from the journal to ledger accounts. He posted a credit twice to the same revenue account. The procedure most likely to disclose this error would be:
- Taking a trial balance.
  - Refooting the balances of all accounts in the ledger.
  - Comparing the total number of debit entries in the ledger with the total number of credit entries.
  - Comparing the balance of the revenue account to the amount of cash received during the period.
37. The primary purpose of preparing a trial balance is to determine that:
- The ledger contains an equal dollar amount of debit and credit entries.
  - The ledger contains an equal number of debit and credit entries.
  - The number of ledger accounts with debit balances is equal to the number of accounts with credit balances.
  - The accounts in the ledger are arranged in financial statement order.
38. Which of the following errors would NOT be disclosed by preparation of a trial balance?
- An error was made in computing the balance of the Cash account.
  - A journal entry included a debit to the Equipment account for \$1,400, but this amount was erroneously posted as \$4,100.
  - During the posting process, a \$2,000 debit to Cash was accidentally entered in the credit side of the Cash account.
  - None of the journal entries recorded on the last day of the year had been posted to the ledger.

39. A trial balance which is out of balance indicates that:
- The number of ledger accounts with debit balances is not equal to the number of accounts with credit balances.
  - A debit has been posted to the wrong account.
  - There is not an equality of debit and credit amounts in the ledger.
  - A journal entry has been completely omitted from the posting process.
40. A trial balance will indicate the existence of an error if:
- The purchase of a typewriter for \$870 is entered in the accounting records as a debit of \$87 to Office Equipment and a credit of \$87 to Accounts Payable.
  - The collection of \$75 cash is recorded by a debit to Accounts Receivable and a credit to Cash.
  - A ledger account with a credit balance is listed as a debit amount in the trial balance.
  - A journal entry debiting Equipment is posted as a debit to the Building account.
41. The using up of an asset owned by a business requires the recording of an expense.
- true
  - false
42. An income statement shows the financial position of a business at the beginning and ending of a given time period.
- true
  - false
43. The key step in producing a reliable income statement is matching revenue earned with the assets which produced that revenue.
- true
  - false
44. "Retained Earnings" represents:
- Cash available for dividends.
  - The amount initially invested in the business by stockholders.
  - Cash available for expansion and growth.
  - Income which has been reinvested in the business rather than distributed as dividends to stockholders.
45. If expenses exceed revenue during a given accounting period:
- Assets will decrease more than liabilities.
  - Owners' equity will decrease more than assets.
  - The cash account will decrease.
  - The income statement will show a net loss.
46. If a journal entry recognizes revenue, the other part of the entry might:
- Increase an asset account.
  - Increase a liability account.
  - Decrease an asset account.
  - Increase the Retained Earnings account.



47. A 12-month accounting period ending June 30 was adopted by Bell Company. This time period is the company's:
- Fiscal year.
  - Natural business year.
  - Income cycle.
  - Useful life.
48. Palm Beach Motel accepts advance telephone reservations for rooms during its summer tourist season, but requires a 20% cash deposit by June 1. The realization principle indicates that the room rental revenue from these guests should be recognized in the period that the:
- Telephone reservation is received.
  - 20% deposit is received.
  - Guests stay in the motel.
  - 80% balance is collected.
49. The "matching principle" is best demonstrated by:
- Using debits to record decreases in owners' equity and credits to record increases.
  - The equation  $A = L + OE$ .
  - Allocating the cost of an asset to expense over the periods during which benefits are derived from ownership of the asset.
  - Offsetting the cash receipts of the period with the cash payments made during the period.
50. DataMax prepares monthly financial statements. Which of the following VIOLATES the matching principle?
- Depreciation expense is recognized on a building purchased two years ago.
  - The premium on a six-month insurance policy is debited to Insurance Expense.
  - Expenses for the period exceed revenue.
  - The cost of advertising done during the month is charged to expense even though no payment is due for 60 days.
51. The reason that revenue is recorded by a "credit entry" to a revenue account is:
- That revenue always involves a debit to the Cash account.
  - The realization principle.
  - The matching principle.
  - That revenue increases owners' equity.
52. The reason that both expenses and dividends are recorded by debit entries is that:
- All dividend and expense transactions involve offsetting credit entries to the Cash account.
  - Both expenses and dividends are offset against revenue in the income statement.
  - Both expenses and dividends reduce stockholders' equity.
  - The statement is untrue--expenses are recorded by debits, but dividends are recorded by credits to the Dividends account.

53. "Depreciation expense" may best be described as the:
- Decline in the market value of an asset during the period.
  - Systematic allocation of the cost of long-lived assets to expense.
  - Cash payments made during the period on loans used to finance the purchase of assets such as buildings and equipment.
  - Cash being set aside each period to provide for the replacement of long-lived assets, such as buildings and equipment.
54. Which generally accepted accounting principle BEST explains the need for recording depreciation expense?
- The cost principle.
  - The objectivity principle.
  - The matching principle.
  - The realization principle.
55. The accountant for the McCarthy Company forgot to make an adjusting entry to record depreciation for the current year. The effect of this error would be:
- An overstatement of net income and an understatement of assets.
  - An overstatement of assets offset by an understatement of stockholders' equity.
  - An overstatement of assets, net income, and stockholders' equity.
  - An overstatement of assets and of net income and an understatement of stockholders' equity.
56. A statement of retained earnings shows:
- The changes in the Cash account occurring during the accounting period.
  - The revenue, expense, and dividends of the accounting period.
  - The types of assets which have been purchased with the earnings retained during the accounting period.
  - The changes in the Retained Earnings account occurring during the accounting period.
57. In the closing of the accounts at the end of the period, which of the following is closed directly into the Retained Earnings account?
- Depreciation expense.
  - All expense accounts.
  - Revenue and liability accounts.
  - The Income Summary account.
58. In the sequence of procedures performed during the accounting cycle, end-of-period adjustments are prepared:
- After preparing a trial balance.
  - After preparing closing entries.
  - After preparing an adjusted trial balance.
  - After preparing an after-closing trial balance.

59. On April 1, Hudson Company received and paid a \$700 bill for advertising done in March. In addition to this bill, the company paid \$6,100 during April for expenses incurred in that month. On May 2, Hudson Company paid a \$4,600 payroll to employees for work done in April. Based on these facts, total expenses for the month of April were:
- \$6,100.
  - \$6,800.
  - \$10,700.
  - \$11,400.
60. Revenue for June was \$99,000, of which \$92,000 was collected in cash. Expenses for June were \$87,000, of which \$84,000 were paid in cash. Dividends declared and paid during June were \$16,000. Net income or net loss for June, measured by the accrual basis, was:
- \$8,000 net loss.
  - \$4,000 net loss.
  - \$8,000 net income.
  - Some other amount.
61. Madison Company paid \$2,400 cash for an insurance policy providing three years' protection against fire loss. This transaction could properly be recorded by a \$2,400 debit to Unexpired Insurance and a \$2,400 credit to Cash.
- true
  - false
62. When a separate statement of retained earnings is prepared, the amount of retained earnings no longer appears in the balance sheet.
- true
  - false
63. In the work sheet prepared for a profitable business, the figure for net income will appear in both the Income Statement credit column and the Balance Sheet debit column.
- true
  - false
64. The purpose of adjusting entries is to:
- Prepare the revenue and expense accounts for recording the revenue and expenses of the next accounting period.
  - Record certain revenue and expenses that are not properly measured in the course of recording daily routine transactions.
  - Correct errors made during the accounting period.
  - Update the Retained Earnings account for the changes in owners' equity that had been recorded in revenue and expense accounts throughout the period.

65. Rex Office Supplies occupies a rented building and pays \$1,000 a month rent on the first day of each month. Under these circumstances:
- The entry to record the monthly rental payment will consist of a debit to Prepaid Rent and a credit to Cash.
  - No adjusting entry will be necessary with respect to rent.
  - The monthly rent payments should be credited to a liability account.
  - The Rent Expense account will have a credit balance of \$1,000 at the end of the year.
66. Which of the following is NOT a purpose of adjusting entries?
- To prepare the revenue and expense accounts for recording transactions of the following period.
  - To apportion the proper amounts of revenue and expense to the current accounting period.
  - To establish the proper amounts of assets and liabilities in the balance sheet.
  - To accomplish the objective of offsetting the revenue of the period with all the expenses incurred in generating that revenue.
67. Of the following adjusting entries, which one results in an increase in liabilities and the recognition of an expense at the end of an accounting period?
- The entry to record interest accrued on a note payable.
  - The entry to record revenue earned but not yet collected or recorded.
  - The entry to record earned portion of rent previously received in advance from a tenant.
  - The entry to write off a portion of unexpired insurance.
68. Which of the following entries will result in a decrease in assets and owners' equity?
- The entry to record depreciation expense.
  - The entry to record revenue earned but not yet received.
  - The entry to record the earned portion of rent received in advance.
  - The entry to record accrued wages payable.
69. The account Unearned Management Fees would appear in the balance sheet as a(n):
- Asset.
  - Liability.
  - Revenue.
  - Expense.
70. Interest which has accrued during the accounting period on a note payable to the bank calls for an adjusting entry consisting of:
- A debit to Interest Expense and a credit to Cash.
  - A debit to Notes Payable and a credit to Interest Payable.
  - A debit to an asset and a credit to a liability.
  - A debit to Interest Expense and a credit to Accrued Interest Payable.

71. Data Corporation made several purchases of office supplies totaling \$3,310 during its first year of operations and recorded all purchases by debiting the asset account Office Supplies. At December 31, the amount of unused supplies on hand was determined by count to amount to \$1,460. The proper adjusting entry would be:
- Debit Office Supplies Expense \$1,460 and credit Office Supplies \$1,460.
  - Debit Accounts Payable \$3,310 and credit Office Supplies \$3,310.
  - Debit Office Supplies \$1,460 and credit Office Supplies Expense \$1,460.
  - Debit Office Supplies Expense \$1,850 and credit Office Supplies \$1,850.
72. The Booker Theater offered books of theater tickets to its patrons at \$30 per book. Each book contained a certain number of tickets to future performances. During the current period 1,000 books were sold for \$30,000 and this amount was credited to Unearned Ticket Revenue. At the end of the period it was determined that \$10,000 worth of book tickets had been used by customers attending performances. The appropriate adjusting entry at the end of the period would be:
- Debit Ticket Revenue \$20,000 and credit Unearned Ticket Revenue \$20,000.
  - Debit Ticket Revenue \$10,000 and credit Unearned Ticket Revenue \$10,000.
  - Debit Unearned Ticket Revenue \$20,000 and credit Ticket Revenue \$20,000.
  - Debit Unearned Ticket Revenue \$10,000 and credit Ticket Revenue \$10,000.
73. Before making any year-end adjustments, the net income of Reed Company was \$40,000. However, the following adjustments were necessary: office supplies used \$600; services performed for clients but not yet recorded or collected for \$1,300; interest accrued on note payable to bank \$300. After recording these adjustments the net income would be:
- \$37,800.
  - \$38,400.
  - \$40,400.
  - \$41,000.
74. Which of the following amounts appears in both the Income Statement debit column and the Balance Sheet credit column of a work sheet?
- Net income.
  - Net loss.
  - Dividends.
  - Retained Earnings.

75. A work sheet should be viewed as:
- A financial statement to be distributed to investors.
  - A financial statement to assist managers in making managerial decisions.
  - A tool to assist accountants in making end-of-period adjustments and in preparing financial statements.
  - A tool to assist auditors in determining that all transactions have been properly recorded throughout the period.
76. The amount of net income (or loss) will appear on the debit side of the Income Statement columns in a work sheet if:
- Revenue exceeds total expenses for the period.
  - The trial balance is out of balance.
  - The dividends paid are more than the income or loss for the period.
  - There is a net loss for the period.
77. When a "work sheet" is used:
- Adjusting entries are not prepared since adjustments are shown on the work sheet.
  - Revenue and expense accounts do not have to be closed to the Income Summary account because the income statement is prepared from the work sheet and net income is already computed.
  - Financial statements are prepared before preparing adjusting and closing entries.
  - The Income Statement column and Balance Sheet column of the work sheet eliminate the need to prepare formal financial statements for a business.
78. Colt Corporation closes its accounts at December 31 each year. On December 1, the company obtained a six-month bank loan. The interest applicable to December was \$1,500. Under these circumstances:
- Both an adjusting entry and a reversing entry for \$1,500 are required in order to produce satisfactory year-end financial statements.
  - Neither an adjusting entry nor a reversing entry is needed with respect to interest.
  - Net income will be overstated if an adjusting entry is made for interest but no reversing entry is made.
  - An adjusting entry should be made debiting Interest Expense and crediting Interest Payable.
79. On December 31, Coronado Jewelers made an adjusting entry to record \$800 accrued interest payable on its mortgage. This entry was reversed on January 1. On January 10, the mortgage payment was made. This payment included interest charges of \$1,200, \$400 of which were applicable to the period from January 1 through January 10. In recording this mortgage payment the accountant should:
- Debit Interest Expense \$400 and debit Accrued Interest Payable \$800.
  - Debit Interest Expense \$1,200.
  - Debit Accrued Interest Payable \$1,200.
  - Debit Interest Expense \$400 and credit Accrued Interest Payable \$1,200.

80. Some journal entries require human analysis to determine which accounts should be debited and credited and to determine dollar amounts. Other entries merely move data which has already been recorded from one account to another and can be performed automatically in a computer-based system. Two types of journal entries which can be performed automatically are:

- a. Adjusting entries and reversing entries.
- b. Closing entries and reversing entries.
- c. Adjusting entries and closing entries.
- d. Entries to record unrecorded revenue and expenses.

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|-----------|---|-----------|---|
| 1. (102)  | b | 41. (301) | a |
| 2. (106)  | a | 42. (303) | b |
| 3. (108)  | a | 43. (306) | b |
| 4. (119)  | a | 44. (322) | d |
| 5. (122)  | a | 45. (323) | d |
| 6. (123)  | a | 46. (325) | a |
| 7. (125)  | c | 47. (327) | a |
| 8. (126)  | d | 48. (329) | c |
| 9. (128)  | c | 49. (330) | c |
| 10. (131) | b | 50. (331) | b |
| 11. (134) | a | 51. (333) | d |
| 12. (137) | c | 52. (334) | c |
| 13. (139) | b | 53. (335) | b |
| 14. (140) | d | 54. (337) | c |
| 15. (141) | c | 55. (339) | c |
| 16. (142) | b | 56. (340) | d |
| 17. (143) | c | 57. (343) | d |
| 18. (145) | b | 58. (345) | a |
| 19. (148) | d | 59. (349) | c |
| 20. (150) | d | 60. (350) | d |
| 21. (203) | a | 61. (404) | a |
| 22. (205) | b | 62. (410) | b |
| 23. (207) | b | 63. (418) | b |
| 24. (214) | b | 64. (423) | b |
| 25. (222) | b | 65. (424) | b |
| 26. (225) | a | 66. (425) | a |
| 27. (230) | c | 67. (426) | a |
| 28. (232) | b | 68. (427) | a |
| 29. (233) | a | 69. (428) | b |
| 30. (234) | a | 70. (431) | d |
| 31. (235) | d | 71. (432) | d |
| 32. (236) | b | 72. (436) | d |
| 33. (237) | d | 73. (437) | c |
| 34. (238) | c | 74. (438) | a |
| 35. (239) | a | 75. (439) | c |
| 36. (240) | a | 76. (440) | a |
| 37. (241) | a | 77. (442) | c |
| 38. (243) | d | 78. (445) | d |
| 39. (244) | c | 79. (449) | b |
| 40. (245) | c | 80. (450) | b |