1. A company received cash and issued common stock. What was the effect on the accounting equation?

<table>
<thead>
<tr>
<th>Assets</th>
<th>Liabilities</th>
<th>Stockholders’ Equity</th>
</tr>
</thead>
<tbody>
<tr>
<td>A. +</td>
<td>NE</td>
<td>+</td>
</tr>
<tr>
<td>B. -</td>
<td>NE</td>
<td>-</td>
</tr>
<tr>
<td>C. +</td>
<td>+</td>
<td>NE</td>
</tr>
<tr>
<td>D. -</td>
<td>-</td>
<td>NE</td>
</tr>
</tbody>
</table>

2. A company purchased land by issuing a note payable. What was the effect on the accounting equation?

<table>
<thead>
<tr>
<th>Assets</th>
<th>Liabilities</th>
<th>Stockholders’ Equity</th>
</tr>
</thead>
<tbody>
<tr>
<td>A. -</td>
<td>-</td>
<td>NE</td>
</tr>
<tr>
<td>B. +</td>
<td>+</td>
<td>NE</td>
</tr>
<tr>
<td>C. +</td>
<td>NE</td>
<td>+</td>
</tr>
<tr>
<td>D. -</td>
<td>NE</td>
<td>-</td>
</tr>
</tbody>
</table>

3. Which of the following financial statements is concerned with the financial position of an enterprise at a point in time?
   A. Retained Earnings Statement.
   B. Balance Sheet.
   C. Income Statement.
   D. Statement of Cash Flows.

4. Revenues should be recorded when
   A. They are earned.
   B. A contract is signed.
   C. Work is begun on a job.
   D. Cash is received from a customer.

5. Cash was collected from a customer on account. Which accounts were debited and credited?

<table>
<thead>
<tr>
<th>Debit</th>
<th>Credit</th>
</tr>
</thead>
<tbody>
<tr>
<td>A. Accounts Receivable</td>
<td>Cash</td>
</tr>
<tr>
<td>B. Cash</td>
<td>Service Revenue</td>
</tr>
<tr>
<td>C. Cash</td>
<td>Accounts Receivable</td>
</tr>
<tr>
<td>D. Cash</td>
<td>Accounts Payable</td>
</tr>
</tbody>
</table>

6. Which pair of accounts is increased by recording a credit?
   A. Common Stock and Rent Expense.
   B. Cash and Accounts Receivable.
   C. Treasury Stock and Common Stock.
   D. Notes Payable and Service Revenue.

7. Which of the following errors will cause a trial balance to be out of balance?
   A. A debit to Office Equipment is incorrectly debited to Office Supplies.
   B. The bookkeeper forgot to journalize a transaction.
   C. The bookkeeper forgot to post a journal entry to the ledger.
   D. A credit was posted to an account as a debit.
8. When a magazine company receives advance payment for a subscription, it
   A. Debits Cash and credits Subscriptions Revenue.
   B. Debits Cash and credits Unearned Subscriptions Revenue.
   C. Debits Unearned Subscriptions Revenue and credits Cash.
   D. Debits Prepaid Subscriptions and credits Cash.

9. The Supplies account had a $360 debit balance at the end of the accounting period before
   adjustment for supplies used, and an inventory of $80 worth of unused supplies were on hand.
   Which of the following is the required adjusting entry?
   A. Debit Supplies $280 and credit Supplies Expense $280.
   B. Debit Supplies Expense $280 and credit Supplies $280.
   C. Debit Supplies $80 and credit Supplies Expense $80.
   D. Debit Supplies Expense $80 and credit Supplies $80.

10. A company's weekly payroll of $750 is paid on Fridays. There are five days in a pay period.
    Assume that the last day of the month falls on Wednesday. Which of the following is the required
    adjusting entry?
    A. Debit Unpaid Salaries and credit Salaries Payable for $450.
    B. Debit Salaries Expense and credit Salaries Payable for $450.
    C. Debit Salaries Expense and credit Salaries Payable for $300.
    D. Debit Salaries Payable and credit Salaries Expense for $450.

11. Which of the following is not an application of accrual accounting?
    A. Recording advertising fees revenue at the time the work is done.
    B. Recording telephone expense in the accounting period covered by the monthly bill.
    C. Adjusting unearned advertising fees to the proper balance at the end of the month.
    D. Recording advertising fees revenue only when the cash payment is received.

12. An accountant is preparing adjusting journal entries. Which of the following entries could not
    possibly be a correct adjusting journal entry?
    A. Rent Expense 5,000
       Rent Payable 5,000
    B. Accounts Receivable 5,000
       Service Revenue 5,000
    C. Interest Expense 5,000
       Interest Revenue 5,000
    D. Unearned Revenue 5,000
       Service Revenue 5,000

13. An important purpose of closing entries is to
    A. Set temporary (nominal) account balances to zero to begin the next period.
    B. Help in preparing financial statements.
    C. Adjust the accounts in the ledger.
    D. Set permanent (real) account balances to zero to begin the next period.
Use the following information to answer the next two questions.

<table>
<thead>
<tr>
<th>Dan's Marina</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Adjusted Trial Balance</strong></td>
<td></td>
</tr>
<tr>
<td><strong>December 31, 2011</strong></td>
<td></td>
</tr>
<tr>
<td>Cash</td>
<td>2,500</td>
</tr>
<tr>
<td>Accounts Receivable</td>
<td>5,000</td>
</tr>
<tr>
<td>Prepaid Insurance</td>
<td>2,500</td>
</tr>
<tr>
<td>Building</td>
<td>12,000</td>
</tr>
<tr>
<td>Accumulated Depreciation, Building</td>
<td>3,000</td>
</tr>
<tr>
<td>Accounts Payable</td>
<td>6,000</td>
</tr>
<tr>
<td>Common Stock</td>
<td>10,000</td>
</tr>
<tr>
<td>Dividends</td>
<td>4,000</td>
</tr>
<tr>
<td>Boat Rental Revenue</td>
<td>17,000</td>
</tr>
<tr>
<td>Depreciation Expense</td>
<td>1,000</td>
</tr>
<tr>
<td>Wages Expense</td>
<td>6,500</td>
</tr>
<tr>
<td>Insurance Expense</td>
<td>2,000</td>
</tr>
<tr>
<td>Income Taxes Expense</td>
<td>500</td>
</tr>
<tr>
<td></td>
<td><strong>36,000</strong></td>
</tr>
</tbody>
</table>

14. The entry to close the Dividends account includes a
A. Credit to Retained Earnings for $4,000.
B. Credit to Income Summary for $4,000.
C. Debit to Retained Earnings for $4,000.
D. Debit to Dividends for $4,000.

15. The entry to close the Boat Rental Revenue account includes a
A. Credit to Boat Rental Revenue for $17,000.
B. Debit to Income Summary for $17,000.
C. Debit to Boat Rental Revenue for $17,000.
D. Debit to Retained Earnings for $17,000.

16. The accounting convention that requires a company to use the same accounting principles from one period to the next is
A. Consistency.
B. Conservatism.
C. Materiality.
D. Periodicity assumption.

17. Which of the following should be classified as a current asset?
A. Accounts Receivable.
B. Accumulated Depreciation.
C. Franchises.
D. Land Held for Future Use.

18. Which of the following is **most likely** to appear on the balance sheet as a current liability?
A. Bonds Payable.
B. Accumulated Depreciation.
C. Long-term Notes Payable.
D. Wages Payable.
19. Gross profit equals the difference between net sales and
   A. Net Income.
   B. Operating Expenses.
   C. Cost of Goods Sold plus Operating Expenses.
   D. Cost of Goods Sold.

20. A physical inventory is usually taken
   A. At the peak of the busy season.
   B. In the middle of the fiscal year.
   C. When the perpetual inventory system, but not the periodic inventory system, is being used.
   D. At the end of the fiscal year.

21. Under the **perpetual** inventory system, in addition to making the entry to record a sale, a company would
   A. Make no additional entry until the end of the period.
   B. Debit Cost of Goods Sold and credit Inventory.
   C. Debit Cost of Goods Sold and credit Purchases.
   D. Debit Inventory and credit Cost of Goods Sold.

22. Jones Company accepted a sales return from a customer. The journal entry to record the transaction would include a
   A. Debit to Sales Revenue.
   B. Credit to Sales Revenue.
   C. Credit to Sales Returns and Allowances.
   D. Debit to Sales Returns and Allowances.

23. Under the **perpetual** inventory system, the entry to record a **purchase return** would include a credit to
   A. Cost of Goods Sold.
   B. Inventory.
   C. Accounts Payable.
   D. Purchase Returns and Allowances.

24. The Allowance for Doubtful Accounts is necessary because
   A. Uncollected accounts that are written off must be accumulated in a separate account.
   B. When recording Bad Debts Expense, it is not possible to predict specifically which accounts will not be collected.
   C. Management should know how much in credit losses have occurred over the years.
   D. A liability results when a credit sale is made.

25. The general ledger account for Accounts Receivable shows a debit balance of $50,000. The Allowance for Doubtful Accounts has a **credit** balance of $1,000. If management estimates that 5% of Accounts Receivable will prove uncollectible, Bad Debts Expense would be recorded for
   A. $1,500.
   B. $2,540.
   C. $2,500.
   D. $3,500.
The following data exist for Kohler Company:

<table>
<thead>
<tr>
<th></th>
<th>2011</th>
<th>2010</th>
</tr>
</thead>
<tbody>
<tr>
<td>Accounts Receivable</td>
<td>$80,000</td>
<td>$90,000</td>
</tr>
<tr>
<td>Sales</td>
<td>484,500</td>
<td>410,500</td>
</tr>
</tbody>
</table>

Recall that Receivable turnover = Net Sales / Average Accounts Receivable. Kohler Company’s receivable turnover for 2011 is:

A. 0.2 times.
B. 5.7 times.
C. 6.1 times.
D. 4.6 times.

Interest on a 3-month, 10 percent, $10,000 note receivable is

A. $250.
B. $2,500.
C. $288.
D. $1,000.

The inventory costing method that matches recent costs with recent revenues is

A. Last-in, First-out (LIFO).
B. First-in, First-out (FIFO).
C. Average Cost.
D. Specific Identification.

Use the following information to answer the next three questions.

Beginning inventory 100 units @ $8.00 = $800
Purchase # 1 200 units @ $6.00 = 1,200
Purchase # 2 100 units @ $12.00 = 1,200
Total 400 units $3,200

Ending inventory is 150 units.

What is ending inventory under the average cost method?

A. $1,200.
B. $2,000.
C. $300.
D. $500.

What is cost of goods sold under LIFO?

A. $1,100.
B. $1,700.
C. $1,500.
D. $2,100.

What is cost of goods sold under FIFO?

A. $1,500.
B. $1,100.
C. $1,700.
D. $2,100.
32. Which of the following should **not** be included in the cost of land?
   A. Cost of clearing an old building from land.
   B. Legal fees.
   C. Commission paid to real estate agent.
   D. Cost of paving land for parking.

Use the following information to answer the next three questions.

Nicholson purchased a piece of equipment on for $60,000. The equipment has an estimated useful life of eight years or 50,000 units of production and an estimated salvage value of $6,000.

33. The amount of depreciation to be recorded for **year 2** using the **straight-line** method of calculating depreciation, is
   A. $ 7,500.
   B. $ 6,750.
   C. $15,000.
   D. $13,500.

34. The amount of depreciation to be recorded for **year 1** using the **double-declining balance** method, is
   A. $13,500.
   B. $ 6,000.
   C. $15,000.
   D. $12,000.

35. The amount of depreciation to be recorded in **year 1** using the **units-of-activity** method and assuming that 6,500 units are produced, is
   A. $4,680.
   B. $7,800.
   C. $5,200.
   D. $7,020.

Use the following information to answer the next three questions.

<table>
<thead>
<tr>
<th>Periods</th>
<th>Future Value of $1 at 12 Percent</th>
<th>Future Value of Ordinary Annuity of $1 at 12 Percent</th>
<th>Present Value of $1 at 12 Percent</th>
<th>Present Value of Ordinary of $1 at 12 Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>1.120</td>
<td>1.00</td>
<td>0.893</td>
<td>0.893</td>
</tr>
<tr>
<td>2</td>
<td>1.254</td>
<td>2.120</td>
<td>0.797</td>
<td>1.690</td>
</tr>
<tr>
<td>3</td>
<td>1.405</td>
<td>3.374</td>
<td>0.712</td>
<td>2.402</td>
</tr>
</tbody>
</table>

36. A single deposit of $800 made at the beginning period 1 would grow to how much at the end of three years, assuming a 12 percent interest rate?
   A. $1,254.
   B. $ 896.
   C. $1,124.
   D. $2,699.

37. If an accumulation of $500 is desired at the end of three years, what amount must be deposited now to accomplish that goal, assuming a 12 percent interest rate?
   A. $148.
   B. $356.
   C. $446.
   D. $268.
38. A deposit of $200 made at the end of each year for three years would grow to how much, assuming a 12 percent rate?
   A. $843.
   B. $841.
   C. $675.
   D. $672.

39. Jones borrowed $960 from the bank, issuing a 12.5%, 4-month promissory note. Assuming that the note is issued and paid in the same accounting period, Jones’ entry on the date of payment will include a
   A. Debit to Notes Payable for $960.
   B. Debit to Interest Payable for $40.
   C. Credit to Cash for $960.
   D. Debit to Interest Receivable for $40.

40. On June, 30, 2011, Riddle Corporation issued $500,000 of 8%, 5-year bonds at 100. Interest is payable semi-annually. The journal entry to record the semiannual interest payment on December 31, 2011 would credit
   A. Interest Expense for $20,000.
   B. Cash for $20,000.
   C. Cash for $200,000.
   D. Bonds Payable for $500,000.

41. Discount on bonds payable should be reported on the balance sheet of the issuing corporation as a(n)
   A. Direct deduction from the face amount of the bonds payable in the long-term liability section.
   B. Direct deduction from retained earnings in the stockholders’ equity section.
   C. Asset.
   D. Direct addition to the face amount of the bonds payable in the long-term liability section.

42. Bonds with a face value of $10,000 were issued at 97. The Cash account will be debited for
   A. $970.
   B. $10,097.
   C. $10,000.
   D. $9,700.

43. The following accounts appear in the ledger of Saphire Corporation on December 31, 2011:

<table>
<thead>
<tr>
<th>Account</th>
<th>Balance</th>
</tr>
</thead>
<tbody>
<tr>
<td>Preferred Stock</td>
<td>$30,000</td>
</tr>
<tr>
<td>Common Stock</td>
<td>60,000</td>
</tr>
<tr>
<td>Paid-in Capital in Excess of Par Value, Preferred</td>
<td>7,000</td>
</tr>
<tr>
<td>Paid-in Capital in Excess of Par Value, Common</td>
<td>18,000</td>
</tr>
<tr>
<td>Retained Earnings</td>
<td>40,000</td>
</tr>
<tr>
<td>Treasury Stock</td>
<td>5,000</td>
</tr>
</tbody>
</table>

   A balance sheet prepared on December 31, 2011, would report total paid-in capital of
   A. $115,000.
   B. $90,000.
   C. $155,000.
   D. $160,000.
44. If Saphire Corporation has 80,000 shares of common stock authorized, 50,000 shares of common stock issued, and holds 4,000 shares of common stock as treasury stock, the total number of outstanding common shares is
   A. 34,000.
   B. 76,000.
   C. 46,000.
   D. 30,000.

45. The Paid-in Capital in Excess of Par Value account normally is credited in a journal entry to record the issuance of stock when
   A. The earnings per share of the stock exceeds par value.
   B. The number of shares issued exceeds the par value.
   C. Stock is sold at an amount greater than par value.
   D. The stated value of the capital stock is greater than the par value.

46. What effect will the purchase of treasury stock have on total stockholders’ equity?
   A. Increase.
   B. Decrease.
   C. No effect.
   D. Cannot determine from the information given.

47. The purpose of the Statement of Stockholders’ Equity is to
   A. Summarize the changes in the components of stockholders’ equity for a period of time.
   B. Replace the statement of retained earnings.
   C. Summarize the computation of net income during the period.
   D. Budget the transactions expected to occur during the coming accounting period.

48. Martinez Corporation has 30,000 shares of $10 par value common stock outstanding. On March 17, the Board of Directors declared a 10 percent stock dividend. Market value of the stock was $13 on March 17. The effect of the declaration and issuance of the stock dividend for Martinez would include a
   A. Decrease to Cash for $39,000.
   B. Decrease to Retained Earnings for $39,000.
   C. Decrease to Retained Earnings for $30,000.
   D. Increase to Common Stock for $39,000.

49. The primary purpose of the statement of cash flows is to provide information
   A. Regarding the results of operations for a period of time.
   B. Regarding a company’s financial position at the end of an accounting period.
   C. About a company’s cash receipts and cash payments during an accounting period.
   D. About a company’s investing and financing activities.
Use the following information to answer the next three questions:

For each item listed in the questions below, indicate where the item is most likely to be located in a corporation’s annual report as follows:

A. Management discussion and analysis.
B. Financial statements.
C. Auditor’s Report.
D. Notes to financial statements.

50. A summary of significant accounting policies.
51. A discussion and analysis of financial condition and results of operations.
52. An explanation of what an audit entails and the activities performed by the auditors.
## Solutions to Practice Exam

### Multiple Choice

|   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |   |