

SAMPLE EXAM I

DISCLAIMER - PLEASE READ:

These sample exam problems will serve as an excellent review for the actual exam. These questions should give students a good idea of the format and rigor of problems to be encountered on the exams. **The sample exam questions; however, are NOT intended to be comprehensive in their coverage of the topics that may be included on the exam. Simply learning the concepts reflected in these sample questions will NOT be adequate for complete exam preparation. In order to be successful on the exam, students must be comfortable with ALL concepts and problems covered in the online lectures.**

1. Financial accounting provides:
 - A. budgets and forecasts of future business operations
 - B. detailed management reports designed to control and manage company assets
 - C. information to investors and creditors
 - D. all of the above are true
 - E. none of the above are true

2. Which of the following financial statements reflect activity for a point in time?
 - A. both the income statement and the balance sheet
 - B. only the balance sheet
 - C. only the income statement
 - D. neither the income statement nor the balance sheet

3. The following information is provided at the end of the year:

Liabilities	\$50,000
Retained Earnings	25,000
Common Stock	35,000

The amount of total assets at the end of the year would be equal to:

- A. \$ 25,000
- B. \$60,000
- C. \$85,000
- D. \$110,000
- E. none of the above are correct

4. Which of the following events causes a net decrease in total assets?
- A. the sale of inventory to a customer at an amount larger than cost
 - B. payment of utilities bills not previously recorded as an obligation
 - C. cash purchase of equipment
 - D. credit purchase of equipment
 - E. none of the above are correct
5. The nature of an asset is *best* described as:
- A. something with physical form which is valued at cost in the accounting records
 - B. an economic resource owned by a business and expected to benefit future operations
 - C. an economic resource representing cash or the right to receive cash in the near future
 - D. something owned by a business that has a ready market value
 - E. property, plant, and equipment
6. The purchase of inventory with cash:
- A. increases assets and owners' equity
 - B. decreases assets and owners' equity
 - C. increases assets and liabilities
 - D. has no net effect on total assets
 - E. none of the above are correct
7. If assets decreased by \$60,000 during a year and owners' equity increased by \$20,000, then liabilities must have:
- A. increased by \$40,000 during the year
 - B. decreased by \$80,000 during the year
 - C. increased by \$80,000 during the year
 - D. decreased by \$60,000 during the year
 - E. none of the above are correct
8. For the current accounting year, beginning and ending total liabilities were \$75,000 and \$155,000 respectively. At year-end, owner's equity amounted to \$145,000, and total assets were \$105,000 larger than at the beginning of the year. If the common stock sold to owners during the year amounted to \$25,000 and dividends paid to owners totaled \$10,000, net income or net loss for the year was:
- A. \$10,000 net loss
 - B. \$ 5,000 net income
 - C. \$ 2,000 net income
 - D. \$10,000 net income
 - E. none of the above are correct

9. During the current year, assets increased from \$55,000 to \$95,000, and liabilities decreased from \$45,000 to \$37,500. If no additional common stock was sold to owners during the year, dividends totaled \$20,000, and expenses totaled \$105,000, the total revenues for the year must have been:
- A. \$115,000
 - B. \$172,500
 - C. \$152,500
 - D. \$125,000
 - E. none of the above are correct
10. On December 30, a firm's balance sheet showed assets of \$1,950,000, liabilities of \$900,000 and owner's equity of \$1,050,000. On December 31 the firm (1) paid off Accounts Payable of \$245,000, and (2) paid rent of \$80,000 due on their building. If a new balance sheet is prepared after these transactions, assets, liabilities, and owner's equity, respectively, would be equal to:
- A. \$1,625,000, \$655,000, and \$970,000
 - B. \$1,625,000, \$575,000, and \$1,050,000
 - C. \$1,625,000, \$900,000, and \$725,000
 - D. \$1,605,000, \$655,000, and \$1,050,000
 - E. none of the above are correct
11. Which of the following accounts normally has a debit balance?
- A. Buildings
 - B. accounts payable
 - C. sales revenue
 - D. common stock
 - E. none of the above are correct
12. All of the accounts of a business entity taken together comprise the:
- A. journal
 - B. balance sheet
 - C. accounting system
 - D. financial statements
 - E. ledger
13. The sale of inventory to a customer on account is recorded with debits to:
- A. inventory and cost of goods sold
 - B. accounts receivable and inventory
 - C. cost of goods sold and accounts receivable
 - D. sales revenue and accounts receivable
 - E. sales revenue and inventory

14. A building owned by a business would not be classified as a current asset unless:
- it was purchased within the last 12 months
 - management purchased the building with cash or intended to pay off any obligation incurred in the purchase of the building within 12 months
 - management intends and reasonably expects to sell the building within 12 months
 - a building would never be classified as a current asset
15. Scorpion Company purchased land for \$300,000 in 2001. In 2003, the land is valued at \$375,000. The land would appear on the company's balance sheet in 2003 at:
- \$375,000
 - \$75,000
 - \$225,000
 - \$300,000
 - accounting rules allow either (a) or (d) to be used
16. Which of the accounts below would be classified as a nominal account?
- unearned revenue
 - prepaid insurance
 - rent expense
 - retained earnings
 - more than one of the above would be classified as a nominal account
17. Mega Company reported the following account balances at January 1, 2001:
- | | | | | |
|------------------------|------------|--|---------------------------|------------|
| Accounts payable | \$ 450,000 | | Accounts receivable | \$ 400,000 |
| Cash | 300,000 | | Land | 650,000 |
| Common stock | 1,750,000 | | Copyright | 250,000 |
| Equipment | 500,000 | | Building | 1,100,000 |
| Inventory | 200,000 | | Notes payable | 1,200,000 |
- Total *current assets* at January 1 amount to:
- \$3,150,000
 - \$900,000
 - \$3,850,000
 - \$700,000
 - \$3,400,000

18. Hobbins debited Cash and credited Unearned Rental Revenue for \$30,000 on December 1 for rent received in advance for December, January, February, March, and April. What necessary adjustment would be made on December 31?
- A. debit unearned rental revenue 24,000 and credit rental revenue 24,000
 - B. debit unearned rental revenue 6,000 and credit rental revenue 6,000
 - C. debit rental revenue 24,000 and credit unearned rental revenue 24,000
 - D. debit rental revenue 6,000 and credit unearned rental revenue 6,000
 - E. none of the above are correct
19. The adjusting entry made in question #18 above is required under:
- A. the realization principle
 - B. the matching concept
 - C. cash basis accounting
 - D. both (a) and (b) are correct
 - E. both (a) and (c) are correct
20. At the end of the accounting period, \$16,500 in accounting fees had been earned by Troy's Accounting Services but not yet billed, recorded or received. The proper year end adjusting entry by Troy would be:
- A. debit accounts receivable 16,500 and credit accounting fee revenues 16,500
 - B. debit accounts receivable 16,500 and credit unearned accounting fee revenues 16,500
 - C. debit unearned accounting fee revenues 16,500 and credit accounting fee revenues 16,500
 - D. debit cash 16,500 and credit accounting fee revenues 16,500
 - E. none of the above are correct
21. In preparing its adjusting entries at the end of this year, Rebecca Company neglected to record an adjusting entry for employees' wages incurred but not yet paid. This error:
- A. overstates net income, understates liabilities, and overstates owner's equity
 - B. understates net income and overstates both liabilities and owner's equity
 - C. overstates net income and liabilities and understates owner's equity
 - D. overstates net income, liabilities, and owner's equity
 - E. none of the above are correct
22. Failure to adjust at the end of an accounting period for the portion of supplies recorded as an asset but used up during the period has the following effect on the financial statements:
- A. overstates net income
 - B. understates assets
 - C. overstates liabilities
 - D. understates owner's equity
 - E. none of the above are correct

23. Unearned revenue is classified as a(n):
- A. expense account
 - B. asset account
 - C. equity account
 - D. liability account
 - E. revenue account
24. Revenues for the period were \$215,000 and expenses totaled \$170,000. Retained earnings had a \$85,000 beginning balance and a \$105,000 ending balance. What was the amount of dividends paid during the year?
- A. \$10,000
 - B. \$15,000
 - C. \$20,000
 - D. \$35,000
 - E. none of the above are correct
25. During March, Donohue Company entered into the following transactions:
- purchased inventory for \$90,000 on credit
 - issued capital stock for \$50,000 cash
 - purchased equipment for \$39,750 cash
- As a result of these transactions, XYZ Company's total assets would:
- A. increase by \$140,000
 - B. increase by \$100,250
 - C. increase by \$89,750
 - D. increase by \$50,250
 - E. increase by \$250
26. Winger Company purchased a three-year insurance policy on August 1, 2022 for \$40,500. The necessary adjusting journal entry at December 31, 2022 would:
- A. increase net income by \$11,250
 - B. decrease net income by \$13,500
 - C. decrease net income by \$6,750
 - D. decrease net income by \$5,625
 - E. increase net income by \$4,500

Use the following information for questions 27 – 29.

The following transactions occurred during May, the first month of operations Poison Videos

- The company issued common stock to owners for \$500,000 cash
- The company purchased \$250,000 of equipment by making a \$100,000 cash down payment and signing a note payable for the balance
- The company made a 65,000 cash payment on the note payable from the purchase of equipment
- The company sold a piece of equipment for \$15,000 cash. The equipment was sold at cost, thus there was no gain or loss on the sale.

27. What is the balance in the cash account at the end of May?

- A. \$500,000
- B. \$ 415,000
- C. \$ 350,000
- D. \$ 165,000
- E. \$ 200,000

28. What is the balance in the notes payable account at the end of May?

- A. \$150,000
- B. \$185,000
- C. \$65,000
- D. \$85,000
- E. \$50,000

29. What is the owner's equity at the end of May?

- A. \$500,000
- B. \$515,000
- C. \$585,000
- D. \$ 350,000
- E. \$ 200,000

30. Which of the following will *not* cause a change in the owner's equity of a business?

- A. sale of land at a profit
- B. payment of dividends to owners
- C. payment of a business debt
- D. losses from unprofitable operations
- E. all of the above cause a change in owners' equity

Use the following information for questions 31 – 32.

Voorhies Videos reported the following account balances at January 31, 2001:

Accounts Payable	\$ 145,000
Accounts Receivable	165,000
Advertising Expense	50,000
Cash	145,000
Cost of Goods Sold	205,000
Equipment	800,000
Rental Revenue	25,000
Retained Earnings	480,000
Salaries Expense	120,000
Sales Revenue	440,000

31. Gross profit for the month of January is:

- A. \$295,000
- B. \$260,000
- C. \$235,000
- D. \$150,000
- E. \$105,000

32. Net income for the month of January is:

- A. \$310,000
- B. \$75,000
- C. \$105,000
- D. \$90,000
- E. \$50,000

33. *Generally Accepted Accounting Principles* may best be described as:

- A. the accounting standards and concepts used in the preparation of financial statements
- B. the rules and regulations used in the preparation of tax returns
- C. guidelines for establishing a strong system of internal control
- D. guidelines for keeping a business entity profitable and solvent
- E. none of the above are correct

34. Revenues for June totaled \$1,990,000, of which \$920,000 was collected in cash. Expenses for June totaled \$870,000, of which \$840,000 was paid in cash. The company paid dividends to its stockholders during June of \$75,000. The net income for June, as measured by the *accrual basis* of accounting, is equal to:
- A. \$ 45,000
 - B. \$50,000
 - C. \$80,000
 - D. \$120,000
 - E. \$150,000

35. Journey Company reported the following information at June 30, 1999:

total current assets	\$ 1,700,000
total assets	2,900,000
total current liabilities	575,000
total liabilities	1,500,000

The *working capital* reported by XYZ Company at June 30 is equal to:

- A. \$1,125,000
 - B. \$2,325,000
 - C. \$2,275,000
 - D. \$1,400,000
 - E. \$ 200,000
36. Motley Company purchased supplies for \$10,000 during 1998. At January 1, 1998, the supplies on hand were \$2,000. At December 31, 1998, supplies on hand were \$1,500. Supplies expense for 1998 is equal to:
- A. \$10,500
 - B. \$12,000
 - C. \$13,500
 - D. \$9,500
 - E. \$11,500

37. Halen Company reported the following account balances at December 31, 2012:

Service revenue	\$16,500	Equipment	\$32,000
Cash	7,625	Prepaid insurance	6,125
Unearned revenue	26,600	Depreciation expense	3,200
Salary expense	5,250	Accounts payable	6,400
Common stock	1,950	Retained earnings	2,750

Based on the account balances above, what is the total of the debit and credit columns of the adjusted trial balance?

- A. \$ 45,750
- B. \$54,200
- C. \$ 47,800
- D. \$52,150
- E. \$ 49,300

38. The total assets of ZZ, Inc. at January 1, 2002 amounted to \$525,000. ZZ, Inc. entered into the following transactions during January, 2002:

- owners made capital contributions of \$50,000
- inventory that was originally purchased and recorded in November of the previous year at a cost of \$175,000 was sold on account for \$250,000
- paid utility bills amounting to \$5,000
- land was purchased at a price of \$125,000 with a cash down payment of \$60,000 cash and a \$65,000 note payable providing for payment of principal and interest in 60 days

Calculate the amount of total assets at January 31, 2002.

- A. \$ 455,000
- B. \$710,000
- C. \$770,000
- D. \$945,000
- E. \$1,000,000

39. On May 1, 2019, Slayer Company purchased a two-year fire insurance policy for \$18,000. On that date, Wozniak debited the prepaid insurance account for \$18,000. What adjusting journal entry should Wozniak record on December 31, 2019?
- A. debit insurance expense \$6,000 and credit prepaid insurance \$6,000
 - B. debit insurance expense \$9,000 and credit prepaid insurance \$9,000
 - C. debit prepaid insurance \$6,000 and credit insurance expense \$6,000
 - D. debit prepaid insurance \$9,000 and credit insurance expense \$9,000
 - E. no adjusting entry should be made relating to the prepaid insurance
40. The matching concept:
- A. applies only to situations in which a cash payment occurs before an expense is recorded
 - B. is used in accrual accounting to determine the proper period to record revenues
 - C. applies only to situations in which a cash receipt occurs before revenue is recorded
 - D. is used in accrual accounting to determine the proper period to record expenses
 - E. none of the above are correct
41. Financial statements are designed primarily to:
- A. provide managers with detailed information tailored to the managers' specific needs
 - B. indicate to investors in a particular company the current market values of their investments
 - C. report to the internal revenue service the company's taxable income
 - D. provide people outside the business organization with financial information about the company
 - E. provide detailed financial information about the business organization to its employees
42. For a firm that presently has a current ratio of 2.0, the effect on this ratio of paying a current liability is:
- A. increases the current ratio
 - B. decreases the current ratio
 - C. does not effect the current ratio
 - D. depends on the amount paid
43. In recording closing entries, would of the following accounts would be debited?
- A. cost of goods sold
 - B. equipment
 - C. accounts payable
 - D. sales revenue
 - E. dividends

ADDITIONAL PRACTICE PROBLEM

1. The following account balances were available for the Judas Book Store as of December 31, 2001:

Accounts Payable	\$ 180,000
Accounts Receivable	300,000
Building	1,500,000
Common Stock	600,000
Cash	205,000
Cost of Goods Sold	1,040,000
Dividends	235,000
Gain on Sale of Equipment	55,000
Income Tax Expense	180,000
Income Taxes Payable	60,000
Insurance Expense	180,000
Interest Expense	105,000
Interest Revenue	75,000
Inventory	460,000
Land	320,000
Notes Payable (<i>due in 2009</i>)	1,235,000
Patent	195,000
Rent Expense	410,000
Retained Earnings (<i>at January 1, 2001</i>)	520,000
Salaries Expense	505,00
Salaries Payable	285,000
Sales Revenue	2,805,000
Trademark	85,000
Utilities Expense	95,000

REQUIRED: Calculate the following amounts:

1. Gross profit for 2001
2. Net income for 2001
3. Retained earnings at December 31, 2001
4. Total current assets at December 31, 2001
5. Total assets at December 31, 2001
6. Total current liabilities at December 31, 2001
7. Working capital at December 31, 2001