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1.If the inventory shrinkage at the end of the year is overstated by \$7,500, the error will cause an:

- A. . **understatement of net income for the year by \$7,500**
- B. . understatement of cost of merchandise sold for the year by \$7,500
- C. . overstatement of merchandise inventory for the year by \$7,500
- D. . overstatement of gross profit for the year by \$7,500

2.The balance sheet contains the same major headings as appear in the accounting equation.

- A. . False
- B. . **True**

3. If revenue was \$45,000, expenses were \$37,500, and the owner's withdrawals were \$10,000, the a amount of net income or net loss would be:

- A. . \$37,500 net loss
- B. . **\$2,500 net loss**
- C. . \$7,500 net income
- D. . \$45,000 net income

4. If the estimated amount of depreciation on equipment for a period is \$2,000, the adjusting entry to record depreciation would be:

- A. . **debit depreciation expense, \$2,000; credit accumulated depreciation, \$2,000**
- B. . debit equipment, \$2,000; credit depreciation expense, \$2,000
- C. . debit depreciation expense, \$2,000; credit equipment, \$2,000
- D. . debit accumulated depreciation, \$2,000; credit depreciation expense, \$2,000

5. Liabilities result from some future transaction.

- A. . **False**
- B. . True

6. All calendar years are also fiscal years, but not all fiscal years are calendar years.

- A. . True
- B. . **False**

- A. . True  
**B. . False**
8. The post-closing trial balance may contain revenue and expense accounts.  
A. . True  
**B. . False**
9. Overstated ending inventory results in an overstatement of cost of goods sold and an understatement of gross profit and net income.  
A. . True  
**B. . False**
10. All accounting systems currently in use are computerized.  
**A. . False**  
B. . True
11. In a period of rising prices, FIFO results in the lowest cost of goods sold.  
**A. . True**  
B. . False
12. If all of the adjusting entries are not made, the financial statements are incorrect.  
A. . False  
**B. . True**
13. Which of the following entries closes the owner's drawing account at the end of the period.  
**A. . debit the owner's capital account, credit the drawing account**  
B. . debit the income summary account, credit the drawing account  
C. . debit the drawing account, credit the owner's capital account  
D. . debit the drawing account, credit income summary account
14. Which of the following accounts would not be included in a post-closing trial balance.  
**A. . fees earned**  
B. . accumulated depreciation  
C. . cash  
D. . owner's equity
15. Which of the following is an example of an intangible asset.  
A. . Patents  
**B. . all possible answers**  
C. . copyrights  
D. . goodwill
16. If total assets increased \$20,000 during a period and total liabilities increased \$12,000 during the same period, the amount and direction (increase or decrease) of the change in owner's equity for that period is:  
A. . an \$8,000 decrease  
**B. . an \$8,000 increase**  
C. . a \$32,000 increase  
D. . a \$32,000 decrease

17. The following units of a particular item were available for sale during the period:

Beginning inventory 40 units at \$20

First purchase 50 units at \$21

Second purchase 50 units at \$22

Third purchase 50 units at \$23

What is the unit cost of the 35 units on hand at the end of the period as determined under the periodic inventory system by the FIFO costing method.

A. . \$20

**B. . \$23**

C. . \$21

D. . \$22

18. The Unearned Fees account is a revenue account.

A. . True

**B. . False**

19. The accumulated depreciation account is an asset account that shows the amount of depreciation for the current year only.

A. . True

**B. . False**

20. At the end of the fiscal year, Accounts Receivable has a balance of \$100,000 and Allowance for Doubtful Accounts has a balance of \$7,000. The expected net realizable value of the accounts receivable is:

A. . \$107,000

B. . \$7,000

**C. . \$93,000**

D. . \$100,000

21. The percentage-of-sales method estimates the uncollectible accounts from the ending balance in accounts receivable.

A. . True

**B. . False**

22. An example of an accelerated depreciation method is:

A. . Units-of-production

B. . Straight-line

C. . Depletion

**D. . Declining-balance**

23. The three forms business organizations are single proprietorship, partnership, and trust

**A. . False**

B. . True

24. Current Liabilities are classified as clearly determinable, estimated and contingent.

**A. . False**

B. . True

25. The type of account with a normal credit balance is:  
A. . drawing  
**B. . a revenue**  
C. . an asset  
D. . an expense
26. Which of the following expenses would normally be classified as Other or Non Operating expense on a multiple-step income statement.  
**A. . interest expense**  
B. . insurance expense  
C. . depreciation expense - office equipment  
D. . sales salaries expense
27. The following units of a particular item were purchased and sold during the period:  
Beginning inventory 40 units at \$20  
First purchase 50 units at \$21  
Second purchase 50 units at \$22  
First sale 110 units  
Third purchase 50 units at \$23  
Second sale 45 units

What is the cost of the 35 units on hand at the end of the period as determined under the perpetual inventory system by the LIFO costing method.

- A. . \$715**  
B. . \$705  
C. . \$700  
D. . \$805
28. Which of the following accounts would not be closed to the income summary account at the end of a period.  
A. . fees earned  
B. . rent expense  
C. . wages expense  
**D. . accumulated depreciation**
29. Revenues, liabilities and equity accounts are increased by debits.  
**A. . False**  
B. . True
30. Under the allowance method, uncollectible accounts expense is recognized when a specific customer's account is written off.  
A. . True  
**B. . False**
31. If the trial balance has equal debit and credit totals, it cannot contain any errors.  
A. . True  
**B. . False**
32. The left side of any account is the credit side.  
**A. . False**

B. . True

33. The purpose of depreciation accounting is to provide the case required to replace plant assets.

**A. . True**

B. . False

34. The income statement shows the profitability of the company and is dated as of a particular date, such as December 31, 2010.

A. . True

**B. . False**

35. What is the due date of a \$12,000, 90-day, 8% note receivable dated August 5.

A. . November 4

B. . October 31

**C. . November 3**

D. . November 2

36. Which of the following accounts would be classified as a current asset on the balance sheet.

A. . accumulated depreciation

**B. . accounts receivable**

C. . office equipment

D. . land

37. Purchase discounts and purchase returns and allowances are recorded in contra accounts to the purchases account.

**A. . True**

B. . False

38. A transaction must be journalized in the journal before it can be posted to the ledger accounts.

A. . False

**B. . True**

39. A multi-step income statement consists of only two categories of items, revenues and expenses

A. . True

**B. . False**

40. If the equipment account has a balance of \$22,500 and its accumulated depreciation account has a balance of \$14,000, the book value of the equipment is:

A. . \$36,500

B. . \$14,000

C. . \$22,500

**D. . \$8,500**

41. A debit may signify:

**A. . an increase in an asset account**

B. . a decrease in an asset account

C. . an increase in a liability account

- D. . an increase in the owner's capital account
42. A payment of cash for the purchases of services should be recorded in the:
- A. . cash receipts journals
  - B. . revenue journal
  - C. . purchases journal
  - D. . cash payments journal**
43. After the closing process is complete, no balance can exist in any revenue, expense, or income summary account.
- A. . True**
  - B. . False
44. Which of the following items represents a deferral.
- A. . fees earned
  - B. . accumulated depreciation
  - C. . wages payable
  - D. . prepaid insurance**
45. The inventory costing method that is based on the assumption that costs should be charged against revenue in the order in which they were incurred is:
- A. . perpetual inventory
  - B. . average cost
  - C. . FIFO**
  - D. . LIFO
46. The resources owned by a business are called:
- A. . The accounting Equation
  - B. . Owner's Equity
  - C. . Assets**
  - D. . Liabilities
47. A listing of a business entity's assets, liabilities, and owner's equity as of a specific date is:
- A. . a statement of cash flows
  - B. . a statement of owner's equity
  - C. . a balance sheet**
  - D. . an income statement
48. The policies and procedures used by management to protect assets from misuse, ensure accurate business information, and ensure compliance with laws and regulations re called:
- A. . systems analysis
  - B. . systems implementation
  - C. . internal controls**
  - D. . systems design
49. If merchandise purchased on account is returned, the buyer may inform the seller of the details by issuing:
- A. . a credit memorandum
  - B. . a bill
  - C. . an invoice
  - D. . a debit memorandum**

50. The amounts in the Adjustments columns are always added to the amounts in the Trial Balance columns to determine the amounts in the Adjusted Trial Balance columns.

- A. . True
- B. . False**

51. A debit balance in which of the following accounts would indicate a likely error.

- A. . miscellaneous expense
- B. . cash
- C. . fees earned**
- D. . accounts receivable

52. What is the maturity value of a 90-day, 12% note for \$10,000.

- A. . \$10,300**
- B. . \$10,000
- C. . \$8,800
- D. . \$11,200

53. The form listing the titles and balances of the accounts in the ledger on a given date is the:

- A. . balance sheet
- B. . income statement
- C. . trial balance**
- D. . statement of owner's equity

54. When a note receivable is dishonored, Accounts receivable is debited for what amount.

- A. . the face value of the note
- B. . the maturity value of the note plus accrued interest
- C. . the maturity value of the note**
- D. . the maturity value of the note less accrued interest

55. Depreciation is the process of valuation of an asset to arrive at its market value.

- A. . True
- B. . False**

56. All of the steps in the accounting cycle are performed only at the end of the accounting period.

- A. . False**
- B. . True

57. On a multiple-step income statement, the excess of net sales over the cost of merchandise sold is called:

- A. . income from operations
- B. . net income
- C. . operating income
- D. . gross profit**

58. When there are a large number of individual accounts with a common characteristic, it is common to place them in a separate ledger called:

- A. . a creditors ledger

- B. . an accounts payable ledger
- C. . an accounts receivable ledger
- D. . a subsidiary ledger**

59. If merchandise is sold on account to a customer for \$1,000, terms FOB shipping point, 1/10, n/30, and the seller prepays \$50 in transportation costs, the amount of the discount for early payment would be:

- A. . \$0
- B. . \$10.00**
- C. . \$10.50
- D. . \$5.00

60. If merchandise inventory is being valued at cost and the price level is steadily rising, the method of costing that will yield the highest net income is:

- A. . FIFO**
- B. . periodic
- C. . LIFO
- D. . average

61. The balance on the unearned rent account for Jones Co. as of 12/31 is \$1,200. If Jones Co. failed to record the adjusting entry for \$600 of rent earned during December, the effect on the balance sheet and income statement for December is:

- A. . liabilities overstated \$600; net income understated \$600**
- B. . liabilities overstated \$600; net income overstated \$600
- C. . liabilities understated \$600; net income understated \$600
- D. . assets understated \$600; net income overstated \$600

62. A petty cash fund is:

- A. . All of the proposed answers**
- B. . used to pay relatively small amounts
- C. . established by estimating the amount of cash needed for disbursement of relatively small amounts during a specified period
- D. . reimbursed when the amount of money in the fund is reduced to a predetermined minimum amount

63. Under perpetual procedure, cost of goods sold is determined as a result of the closing entries made at the end of the period.

- A. . True**
- B. . False

64. At the end of the accounting period, three trial balances are prepared.

- A. . True**
- B. . False

65. The statement of equity shows both the net income for the period and the beginning and ending balances of equity.

- A. . True**
- B. . False

66. If a net loss occurs, it appears in the Income Statement credit column and Balance Sheet debit column.

- A. . True**
- B. . False



67. Which of the following accounts in the adjusted trial balance columns of the work sheet would be extended to the balance sheet columns:

- A. . Rent revenue
- B. . Miscellaneous expense
- C. . Utilities expense
- D. . Owner Drawing**

68. At the end of the fiscal year, before the accounts are adjusted, Accounts Receivable has a balance of \$200,000 and Allowance for Doubtful Accounts has a credit balance of \$2,500. If the estimate of uncollectible accounts determined by aging the receivables is \$8,500, the amount of uncollectible accounts expense is:

- A. . \$2,500
- B. . \$11,000
- C. . \$6,000
- D. . \$8,500**

69. The income statement in which the total of all expenses is deducted from the total of all revenues is terms:

- A. . multiple-step form
- B. . single-step form**
- C. . report form
- D. . account form

70. Under Lower of Cost or Market, inventory is written down to market value when the market value is less than the cost, and inventory is written up to market value when the market value is greater than the cost.

- A. . False**
- B. . True

71. A profit making business operating as a separate legal entity and in which ownership is divided into shares of stock is known as a:

- A. . Proprietorship
- B. . Corporation**
- C. . Service Business
- D. . Partnership

72. The three most common types of business activity are service, merchandising, and manufacturing.

- A. . True**
- B. . False

73. In taking a physical inventory, consigned goods are usually not included in the ending inventory, but merchandise in transit is included.

- A. . True
- B. . False**

74. Every adjusting entry affects at least one income statement account and one balance sheet account.

- A. . True**
- B. . False

75. A business issued a \$5,000, 60-day, 12% note to the bank. The amount due at maturity is:

- A. . \$4,900
- B. . \$5,000
- C. . \$5,600
- D. . \$5,100**

76. Under perpetual inventory procedure, the Merchandise Inventory account is debited for each purchase and credited for each sale.

- A. . False
- B. . True**

77. If the supplies account (asset), before adjustment on May 31, indicated a balance of \$2,250, and supplies on hand at May 31 totaled \$950, the adjusting entry would be:

- A. . debit supplies, \$950; credit supplies expense, \$950
- B. . debit supplies, \$1,300; credit supplies expense, \$1,300
- C. . debit supplies expense, \$1,300; credit supplies, \$1,300**
- D. . debit supplies expense, \$950; credit supplies, \$950

78. The receipt of cash from customers in payment of their accounts would be recorded by a:

- A. . debit to cash; credit to accounts receivable**
- B. . debit to accounts receivable; credit to cash
- C. . debit to accounts payable; credit to cash
- D. . debit to cash; credit to accounts payable

79. Which of the following expenditures incurred in connection with acquiring machinery is a proper charge to the asset account.

- A. . Neither one
- B. . Installation costs
- C. . Freight
- D. . Both**

80. The purchase price of land includes its purchase price and other related costs, including the cost of removing an old unusable building that is on the land.

- A. . True**
- B. . False