### EXAM #1 (Chapters 1-3)

## **PART A:**

#### TRUE/FALSE (1 point each):

- 1. Capital represents the owner's investment, or equity, in a business.
- 2. When a business receives cash, it is always recorded as an increase to Cash and a decrease to an expense.
- 3. Double-entry accounting is the system by which each business transaction is recorded in at least two accounts.
- 4. A credit always means an entry on the right side of the account.
- 5. Accounts Payable is a liability account whose normal balance is a credit.
- 6. The first financial statement to be prepared is Income Statement.
- 7. Revenue has the effect of decreasing Owner's Equity.
- 8. The owners of a partnership business are referred to as stockholders.
- 9. Public accountants work on staff of federal, state, and local governmental units.
- 10. The official list of all accounts is called a chart of accounts.
- 11. CPA stands for a certified public accountant.
- 12. The largest number of businesses in the USA are corporations.
- 13. Double taxation is one of the major disadvantages of partnerships.
- 14. Partnerships usually have higher survival rates than sole proprietorships.
- 15. Drawing account has normal balance on the debit side.
- 16. All assets are listed on the statement of owner's equity.
- 17. Each financial statement has a title that consists of three lines.
- 18. In the chart of accounts, expense accounts are usually numbered 200-299.

- 19. T accounts are used as official reports prepared by accountants for external users.
- 20. Revenue accounts are increased on the debit side.

#### **MULTIPLE CHOICE (1 point each):**

- 21. Accounting includes all of the following functions EXCEPT for:
  - a. Summarizing.
  - b. Classifying.
  - c. Transferring.
  - d. Recording.
- 22. Which of the following accounts is located on the RIGHT side of the fundamental accounting equation?
  - a. Wages Expense.
  - b. Cash.
  - c. Accounts Receivable.
  - d. Office Equipment.
- 23. The purchase of an asset on account will:
  - a. Increase total assets and decrease total liabilities.
  - b. Have no effect on total assets or total liabilities.
  - c. Increase total assets and increase total liabilities.
  - d. Increase total assets and increase owner's equity.
- 24. The owner of a business invested \$5,000 in the business. What are the effects in the fundamental accounting equation?
  - a. Assets increase \$5,000; liabilities decrease \$5,000; owner's equity increases \$5,000.
  - b. Assets increase \$5,000; liabilities, no effect; owner's equity increases \$5,000.
  - c. Assets increase \$5,000; liabilities increase \$5,000; owner's equity, no effect.
  - d. Assets increase \$5,000; liabilities no effect; owner's equity decreases \$5,000.
- 25. All of the following statements are true about the Revenues accounts, EXCEPT for:
  - a. Revenues are amounts of assets that a business earns from its operations.
  - b. The Revenue accounts are usually numbered in the 400s.
  - c. Revenues increase owner's equity.
  - d. The Revenue accounts are located on the LEFT side of the fundamental accounting equation.
- 26. Amounts owed by a business are referred to as:
  - a. Assets.
  - b. Equities.
  - c. Liabilities.
  - d. Capital.

- 27. The purchase of an asset for cash will:
  - a. Increase total assets and decrease total liabilities.
  - b. Have no effect on total assets or total liabilities.
  - c. Increase total assets and increase total liabilities.
  - d. Increase total assets and increase total owner's equity.
- 28. Which of the following equations is the fundamental accounting equation?
  - a. Assets Liabilities = Owner's Equity
  - b. Assets = Liabilities + Owner's Equity
  - c. Assets + Liabilities = Owner's Equity
  - d. Assets Owner's Equity = Liabilities
- 29. Revenue may be in a form of:
  - a. Accounts receivable.
  - b. Cash.
  - c. Checks.
  - d. All of the above.
- 30. Over a period of time, if total assets increase by \$26,000 and total liabilities increase by \$6,000, then owner's equity will be increased by:
  - a. \$20,000.
  - b. \$32,000.
  - c. \$6,000.
  - d. \$25,000.
- 31. Which of the following classifications of accounts has/have a normal credit balance?
  - a. Drawing.
  - b. Accounts receivable.
  - c. Expenses.
  - d. Revenues and liabilities.
- 32. Which of the following statements about a trail balance is NOT true?
  - a. A trail balance has two columns: Debit and Credit.
  - b. A trial balance is used as a check to ensure the equality of the two sides of the fundamental accounting equation.
  - c. A trial balance is a financial statement.
  - d. A trial balance is helpful in exposing various mistakes in recording entrees.
- 33. The form of a business organization that is NOT affected by the withdrawal or death of its owner(s) and can continue forever is know as:
  - a. The sole proprietorship.
  - b. The partnership.
  - c. The corporation.
  - d. The nonprofit organization.

- 34. The area of accounting that involves the preparation of internal reports for a firm's executives and the analysis of the data in these reports to aid in decision making is known as:
  - a. Government accounting.
  - b. Managerial accounting.
  - c. Public accounting.
  - d. Auditing.
- 35. Collecting cash from a credit (charge) customer should be recorded as:
  - a. A debit to Cash and a credit to Accounts Payable.
  - b. A debit to Cash and a credit to Service Income.
  - c. A debit to Cash and a credit to Accounts Receivable.
  - d. A debit to Cash and a credit to the Capital Account.
- 36. The normal balance of an account is on the:
  - a. Plus side.
  - b. Left side.
  - c. Debit side.
  - d. Right side.
- 37. The title of any financial statement must include the following:
  - a. The name of the company, the title of the financial statement, and a period of time or date.
  - b. The name of the company and the period of time/date.
  - c. The name of the owner, the name of the company, and the date/period.
  - d. None of the above.
- 38. The following is an example(s) of a transposition:
  - a. Recording \$520 as \$5.20.
  - b. Recording 821 as 812.
  - c. Recording a Debit amount on a Credit side.
  - d. All of the above.
- 39. The net income or net loss is transferred from the income statement to the:
  - a. Balance sheet.
  - b. Chart of accounts.
  - c. Trial balance.
  - d. Statement of owner's equity.
- 40. A credit may result in:
  - a. An increase in an asset account.
  - b. A decrease in a capital account.
  - c. An increase in a liability account.
  - d. A decrease in a liability account.

41.	Examp	les of assets are:
	a.	Cash and revenue.
	b.	Cash and accounts receivable.
	c.	Cash and rent expense.
	d.	Investment by the owner and revenue.
42.	If liabi	lities are \$4,000 and owner's equity is \$15,000, assets are:
	a.	\$19,000.
	b.	\$9,000.
	c.	\$15,000.
	d.	\$4,000.
43.		is an accounting form that is prepared at the end of the fiscal period
	and pro	oves that debit balances are equal to credit balances of accounts.
	a.	The column form.
	b.	The trial balance.
	c.	The statement of owner's equity.
	d.	The balance sheet.
44.	A net l	oss happens when:
	a.	When assets are greater than liabilities.
	b.	When expenses are greater than revenues.
	c.	When revenues are greater than expenses.
	d.	When expenses are greater than assets.
45.	The inc	come statement shows:
	a.	The results of operation for a period of time.
	b.	The results of operation for a specific date.
	c.	Revenue and owner's equity.
	d.	Assets and their relation to liabilities.
46.	Assets	and liabilities are reported on:
	a.	The income statement.
	b.	The statement of owner's equity.
	c.	The balance sheet.
	d.	Both the balance sheet and the income statement.
47.	The rea	nt paid for future month(s) is a(n):
	a.	Liability.
	b.	Expense.
	c.	Asset.

d.

Revenue.

4.0	D 1		1		1	•	•
48.	Debits.	are	used	to	record	increases	1n:

- a. Assets and revenue.
- b. Revenue and owner's equity.
- c. Assets and expenses.
- d. Assets and liabilities.
- 49. In the chart of the accounts, if the number of an account is 211, this probably means that the account is:
  - a. An account in the Owner's Equity section.
  - b. An account in the Assets section.
  - c. An account in the Revenues section.
  - d. An account in the Liabilities section.
- 50. In the Cash T account, the total of the figures on the left side is \$25,800. The total on the right side of the account is \$14,100. The balance of the account is:
  - a. \$11,700 and would be recorded on the right side of the account.
  - b. \$11,700 and would be recorded on the left side of the account.
  - c. \$39,900 and would be recorded on the left side of the account.
  - d. \$39,900 and would be recorded on the right side of the account.
- 51. Which of the following increase(s) owner's equity?
  - a. Expenses.
  - b. Withdrawals.
  - c. Receiving cash from credit customers.
  - d. Revenues.
- 52. The financial affairs of a business and its owner(s) should be
  - a. Combined in the firm's accounting records.
  - b. Kept totally separate.
  - c. Combined only if the owner wants them to be combined.
  - d. Reported in different parts of the firms' financial records.
- 53. The corporations whose stock can be bought and sold by public is known as:
  - a. Public corporation.
  - b. Closely held corporation.
  - c. Sole proprietorship.
  - d. Public partnership.
- 54. The \_\_\_\_\_\_ is an independent accountant's review of a firm's financial statements.
  - a. GAAP review.
  - b. Auditor's report.
  - c. SEC report.
  - d. CPA review.

55.	If a c	company issues a total of 10,000 shares and you own 500 of them, what is the
	perce	entage of your corporate ownership?
	a.	25%.
	b.	0.5%.
	c.	5%.
	d.	12%.
56.	Acco	ounting standards developed and applied by professional accountants are known as
	a.	GAAP.
	b.	SEC.
	c.	FASB.
	d.	A=L+OE.
57.	The	amounts a business must pay in the future are called:
	a.	Accounts receivable.
	b.	Accounts payable.
	c.	Borrowed assets.
	d.	Expenses.
58.	The a(n):	difference between the amounts recorded on the two sides of a T account is called
	a.	Footing.
	b.	Trial balance.
	c.	Outcome.
	d.	Account balance.
59.		is a small pencil figure written at the base of an amount column ving the sum of the entries in that column.
	a.	Account balance.
	b.	Normal balance.
	c.	Footing.
	d.	Total.
60.	Whe	on the business pays its employees, the business transaction is recorded as:
	a.	Debit to Cash and credit to Wages Expense.
	b.	Debit to Cash and credit to Capital.
	c.	Debit to Withdrawal and credit to Cash.
	d.	Debit to Wages (or Salaries) Expense and credit to Cash.

## **ANSWERS:**

1	T	16	F	31	D	46	С
2	F	17	T	32	С	47	C
3	T	18	F	33	C	48	С
4	T	19	F	34	В	49	D
5	T	20	F	35	C	50	В
6	T	21	С	36	A	51	D
7	F	22	A	37	A	52	В
8	F	23	С	38	В	53	A
9	F	24	В	39	D	54	В
10	T	25	D	40	C	55	C
11	T	26	С	41	В	56	A
12	F	27	В	42	A	57	В
13	F	28	В	43	В	58	D
14	T	29	D	44	В	59	С
15	T	30	A	45	A	60	D

## **PART B:**

## PROBLEMS (various points - see below):

## 61. The account balances for Kiley Consulting Services as of June 30 are listed in RANDOM order:

Cash	\$1,640	G. J. Kiley, Capital, June 1	\$6,485
Fees Income	6,160	Rent Expense	1,300
Salaries Expense	2,230	Advertising Expense	1,030
Accounts Receivable	440	G. J. Kiley, Drawing	780
Equipment	5,900	Miscellaneous Expense	200
Telephone Expense	555		
Accounts Payable	1,430		

## A. Prepare an income statement for the month of June, 2008 (5 pts):

Kiley Consulting Services Income Statement Month Ended June 30, 20XX

Revenues:											
Fees Income						6	1	6	0	00	
Expenses:											
Salaries Expense	2	2	3	0	00						
Telephone Expense		5	5	5	00						
Rent Expense	1	3	0	0	00						
Advertising Expense	1	0	3	0	00						
Misc. Expense		2	0	0	00						
Total Expenses						5	3	1	5	00	
Net Income for June							8	4	5	00	

B. Prepare a statement of owner's equity for the month of June, 2008 (5 pts):

Kiley Consulting Services Statement of Owner's Equity Month Ended June 30, 20XX

G. J. Kiley, Capital, June 1, 20XX					6	4	8	5	00	
Net Income for June	8	4	5	00						
Less Withdrawals	7	8	0	00						
Increase in Capital							6	5	00	
G. J. Kiley, Capital, June 30, 20XX					6	5	5	0	00	

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### C. Prepare a balance sheet as of June 30, 2008 (5 pts):

Kiley Consulting Services
Balance Sheet
June 30, 20XX

				Ju	110 3	0, 20111					
Assets:						Liabilities:					
Cash	1	6	4	0	00	AP	1	4	3	0	00
AR		4	4	0	00	OE					
Equipment	5	9	0	0	00	G. J. Kiley, Capital	6	5	5	0	00
Total Assets	7	9	8	0	00	Total Liabilities and OE	7	9	8	0	00
									<u> </u>	<u> </u>	

- 62. Analyze each transaction. Use T accounts to record these transactions.

  Transactions are <u>unrelated</u> to each other!!!! Be sure to put the <u>name</u> of account on the top of each account. Label each T account with <u>debit/credit</u> and <u>plus/minus</u> signs (2 pts each transaction):
- A. Mr. David Grant deposited \$9,500 in a bank in the name of his business, Grant Tours.

Cas	h	D. Grant, Capital					
+9,500	_			9,500+			
Dr				Cr			

B. The business paid \$100, cash for equipment.

Equi	pment	_	Cash				
+100 Dr				100- Cr			

C. The business bought carpets and drapes (furniture) for the office for \$1,200, paying \$300 in cash as a downpayment, with the reminder due in 30 days.

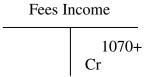
Furnitu	ıre	Cas	AP				
+1200			300-		900+		
Dr			Cr		Cr		

D. Paid wages to a part-time assistant, \$325.

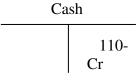
Ča	ısh
	325-
	Cr

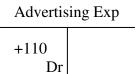
Wages E	Expense
+325	
Dr	

E. Performed services on credit for \$1,070.

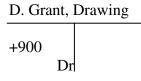


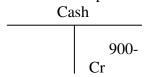
F. Paid \$110 for advertising in a magazine.





G. The owner, Mr. David Grant, withdrew \$900 for personal use.





H. Received \$870 from previously billed clients.

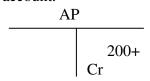
Cash

~	
+870 Dr	

AF	₹
	870- Cr

I. Purchased office supplies, \$200, on account.

Office S	Supplies	_
+200 Dr		



J. Received and paid electricity bill, \$65.



# 3. Using the following final account balances, prepare a trial balance for Happy Furniture Store as of July 31, 2008 (5 pts):

Cash:	\$8,560.00	Kim Happy, Drawing:	\$900.00
<b>Accounts Receivable:</b>	380.00	Fees Income:	3,740.00
<b>Equipment:</b>	1,600.00	Salaries Expense:	670.00
Furniture:	1,200.00	Rent Expense:	720.00
Accounts Payable:	1,118.00	Advertising Expense:	218.00
Kim Happy, Capital:	9,500.00	<b>Utilities Expense:</b>	110.00

Happy Furniture Store

#### **Trial Balance**

July 31, 2008

	ACCOUNT NAME	DEBI T				CREDIT						
1	Cash	8	5	6	0	00						1
	Accounts Receivable		3	8	0	00						2
	Equipment	1		0	0	00						3
	Furniture	1	2	0	0	00						4
	Accounts Payable						1	1	1	8	00	5
	Kim Happy, Capital						9	5	0	0	00	6
	Kim Happy, Drawing		9	0	0	00						7
	Fees Income						3	7	4	0	00	8
9	Salaries Expense		6	7	0	00						9
	Rent Expense		7	2	0	00						10
11	Advertising Expense		2	1	8	00						11
12	Utilities Expense		1	1	0	00						12
13	TOTALS	14	3	5	8	00	14	3	5	8	00	13
14												14
15												15
16												16
17												17
18												18
19												19