

Test bank: Commercial Studies, Accounting

TRUE-FALSE STATEMENTS 1 to 18:

Questions:

For each of the transactions in items 1 through 8, indicate the two (or more) effects on the accounting equation of the business or company, using the following format to give your answer:

Assets:**Increase Decrease No Effect**

Liabilities:**IncreaseDecrease No Effect**

Owner's Equity:**Increase Decrease No Effect**

- 1- The owner invests personal cash in the business.
- 2- The owner withdraws business assets for personal use.
- 3- The company receives cash from a bank loan.
- 4- The company repays the bank that had lent money to the company.
- 5- The company purchases equipment with its cash.
- 6- The owner contributes her personal truck to the business.
- 7- The company purchases an amount of supplies on credit.
- 8- The company purchases land by paying half in cash and signing a note payable for the other half.

Information for Items 9 through 12: Company X provides consulting services to Client Q in May. Company X bills Client Q in May for the agreed upon amount of \$5,000. The sales invoice shows that the amount will be due in June.

9- In May, Company X records the transaction by a debit to *Accounts Receivable* for \$5,000 and a credit to *Service Revenues* for \$5,000. What is the effect of this entry upon the accounting equation for **Company X**?

10- In June, Company X receives the \$5,000. What is the effect on the accounting equation **and** which *accounts* are affected at **Company X**?

11- What is the effect on **Client Q's** accounting equation in May when Client Q records the transaction as a debit to *Consultant Expense* for \$5,000 and a credit to *Accounts Payable* for \$5,000?

12- What is the effect on **Client Q's** accounting equation in June when Client Q remits the \$5,000? Also, which *accounts* will be involved?

13- Which of the following will cause owner's equity to increase?

- a. **Expenses** b. **owner draws** c. **revenues**

14- Which of the following will cause owner's equity to decrease?

- a. **Net income** b. **net loss** c. **revenues**

15- The accounting equation is Assets = _____ + Stockholders' (or Owner's) Equity.

16- Matching, cost, and full disclosure are examples of the fundamental or basic accounting _____.

17- The personal assets of the owner of a company will **not** appear on the company's balance sheet because of which principle/guideline?

- a. **Cost** b. **Business Entity** c. **Monetary Unit**

18- Which principle/guideline requires a company's balance sheet to report its land at the amount the company paid to acquire the land, even if the land could be sold today at a significantly higher amount?

- a. **Cost** b. **Business Entity** c. **Monetary Unit**

19- Which principle/guideline allows a company to ignore the change in the purchasing power of the dollar over time?

- a. **Cost** b. **Economic Entity** c. **Monetary Unit (stable)**

20- Which principle/guideline requires the company's financial statements to have footnotes containing information that is important to users of the financial statements?

- a. **Conservatism** b. **Economic Entity** c. **Full Disclosure**

21- Which principle/guideline justifies a company violating an accounting principle because the amounts are immaterial?

- a. **Conservatism** b. **Full Disclosure** c. **Materiality**

22- Which principle is associated with the assumption that the company will continue on long enough to carry out its objectives and commitments?

- a. **Economic Entity** b. **Going Concern** c. **Time Period**

23- A very large corporation's financial statements have the dollar amounts rounded to the nearest \$1,000. Which accounting principle/guideline justifies not reporting the amounts to the penny?

- a. **Full Disclosure** b. **Materiality** c. **Monetary Unit**

24- Accountants might recognize losses but not gains in certain situations. For example, the company might write-down the cost of inventory, but will not write-up the cost of inventory. Which principle/guideline is associated with this action?

- a. **Conservatism** b. **Materiality** c. **Monetary Unit**

25- Which principle/guideline directs a company to show all the expenses related to its revenues of a specified period even if the expenses were not paid in that period?

- a. **Cost** b. **Matching** c. **Monetary Unit**

26- When the accountant has to choose between two acceptable alternatives, the accountant should select the alternative that will report less profit, less asset amount, or a greater liability amount. This is based upon which principle/guideline?

- a. **Conservatism** b. **Cost** c. **Materiality**

B. Exercises:

1. If total liabilities increased by \$15,000 and owner's equity increased by \$5,000 during period, then total assets must change by what amount and direction during that same period?

- a. \$20,000 decrease
- b. \$20,000 increase
- c. \$25,000 increase
- d. \$30,000 increase

2. If total liabilities decreased by \$15,000 and owner's equity increased by \$5,000 during period, then total assets must change by what amount and direction during that same period?

- a. \$20,000 increase
- b. \$10,000 decrease
- c. \$10,000 increase
- d. \$15,000 decrease

3. If total liabilities decreased by \$25,000 and owner's equity increased by \$5,000 during period, then total assets must change by what amount and direction during that same period?

- a. \$20,000 decrease
- b. \$20,000 increase
- c. \$25,000 increase
- d. \$30,000 increase

4. If total liabilities decreased by \$15,000 and owner's equity decreased by \$5,000 during period, then total assets must change by what amount and direction during that same period?

- a. \$20,000 increase
- b. \$10,000 increase
- c. \$20,000 decrease
- d. \$10,000 decrease

5. If total liabilities increased by \$14,000 during period and owner's equity decreased by \$6,000 during the same period, then the amount and direction (increase or decrease) of the period's change in total assets is a(n)

- a. \$14,000 increase.
- b. \$20,000 increase.
- c. \$8,000 decrease.
- d. \$8,000 increase.

6. The accounting equation for Goodboys Enterprises is as follows:

Assets	Liabilities	Owner's Equity
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$$\$120,000 = \$60,000 + \$60,000$$

If Goodboys purchases office equipment on account for \$12,000, the accounting equation will change to

Assets	Liabilities	Owner's Equity
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- a. $\$120,000 = \$60,000 + \$60,000$
- b. $\$132,000 = \$60,000 + \$72,000$
- c. $\$132,000 = \$66,000 + \$66,000$
- d. $\$132,000 = \$72,000 + \$60,000$

7. As of June 30, 2008, Houston Company has assets of \$100,000 and owner's equity of \$5,000. What are the liabilities for Houston Company as of June 30, 2008?

- a. \$85,000
- b. \$90,000
- c. \$95,000
- d. \$100,000

8. If total liabilities increased by \$4,000, then

- a. assets must have decreased by \$4,000.
- b. owner's equity must have increased by \$4,000.

c. assets must have increased by \$4,000, or owner's equity must have decreased by \$4,000.

d. assets and owner's equity each increased by \$2,000.

9. Collection of a \$500 Accounts Receivable

a. increases an asset \$500; decreases an asset \$500.

b. increases an asset \$500; decreases a liability \$500.

c. decreases a liability \$500; increases owner's equity \$500.

d. decreases an asset \$500; decreases a liability \$500.

10. Match the following external users of financial accounting information with the type of decision that user will make with the information.

a. Creditor

b. Investor

c. Regulatory Agency

d Internal Revenue Service

_____ (1) Is the company operating within prescribed guidelines?

_____ (2) Is the company complying with tax laws?

_____ (3) Is the company able to pay its debts?

_____ (4) Is the company a good investment?

Solution

1. c

2. d

3. a

4. b

11. Match the following terms and definitions.

a. Accounts receivable c. Accounts payable

b. Creditor d. Note payable

- _____ (1) Amounts due from customers
- _____ (2) Amounts owed to suppliers for goods and services purchased
- _____ (3) Amounts owed to bank
- _____ (4) Party to whom money is owed

Solution:

- 1. a
- 2. c
- 3. d
- 4. b

12. Indicate which of these items is an: asset (A), liability (L) or owner's equity (OE) account.

- _____ (1) Supplies
- _____ (2) Klein, Drawing
- _____ (3) Building
- _____ (4) Note Payable
- _____ (5) Taxes Payable

Solution:

- 1. Assets (A)
- 2. Owner's equity (OE)
- 3. Asset (A)
- 4. Liability (L)
- 5. Liability (L)

13. Use the accounting equation to answer the following questions.

- 1. West Wind Sails Co. has total assets of \$120,000 and total liabilities of \$35,000. What is owner's equity?
- 2. Mercy Family Center has total assets of \$225,000 and owner's equity of \$105,000. What are total liabilities?

3. Cucina Med Restaurant has total liabilities of \$40,000 and owner's equity of \$95,000. What are total assets?

Solution:

1. $\$120,000 - \$35,000 = \$85,000$ owner's equity
2. $\$225,000 - \$105,000 = \$120,000$ total liabilities
3. $\$40,000 + \$95,000 = \$135,000$ total assets

14. Determine the missing items.

Assets = Liabilities + Owner's Equity

\$75,000 \$52,000 (a)

(b) \$28,000 \$34,000

\$84,000 (c) \$55,000

Solution:

a. \$23,000

b. \$62,000

c. \$29,000

15. Classify each of these items as an asset (A), liability (L), or owner's equity (OE).

_____ 1. Accounts receivable

_____ 2. Accounts payable

_____ 3. Bonds, Capital

_____ 4. Office supplies

_____ 5. Utilities expense

_____ 6. Cash

_____ 7. Note payable

_____ 8. Equipment

Solution:

1. A 2. L 3. OE 4. A

5. OE 6. A 7. L 8. A

16. Identify the impact on the accounting equation of each of the following transactions.

1. Purchase office supplies on account.
2. Paid secretary weekly salary.
3. Purchased office furniture for cash.
4. Received monthly utility bill to be paid at later time.

Solution:

1. Increase assets and increase liabilities.
2. Decrease assets and decrease owner's equity.
3. Increase assets and decrease assets.
4. Increase liabilities and decrease owner's equity.

17. Identify whether the following items would be reported on the income statement (IS) or balance sheet (BS).

1. Cash
2. Service Revenue
3. Notes Payable
4. Interest Expense
5. Accounts Receivable

Solution:

1. Balance Sheet (BS)
2. Income Statement (IS)
3. Balance Sheet (BS)
4. Income Statement (IS)
5. Balance Sheet (BS)

General Questions

First Question: (18 marks)

Determine if the following phrases are true or false, choose (a) if the phrase is true and (b) if it is false;

1. Accounting provides useful information to internal users only.
2. Public accountant provides his/her financial services to the public for fees.
3. Private accountant is an employee in certain firm and gets a salary for his/her financial services.
4. Business entity concept means that business is separated from its owner or owners.
5. Cost principle means that assets should be recorded at market value.
6. Going concern assumption means that the business is a discontinuing enterprise.
7. Stable currency assumption means that the purchasing power of currency is fixed.
8. Matching principle means that revenues should be matched by expenses to determine the net profit or loss.
9. Management accounting information is historical in nature.
10. According to accrual basis, revenues should be recognized at point of sale.
11. According to cash basis, revenues should be recognized at point of collection.
12. According to cash basis, revenues should be recognized at point of sale.

Second Question: (12 marks)

Translate to Arabic, choose the right answer a, b, c, or d:

13. Public accountant

- a. محاسب حكومي d. محاسب قانوني عام . c. محاسب تكاليف b. محاسب نظامي

14. Cost principle

- a. مبدأ النفقة d. مبدأ النقدية c. مبدأ المصروف b. مبدأ التكلفة

15. Going concern assumption

- a. مبدأ الذهاب d. فرض العودة c. فرض الاستمرارية b. مبدأ الاستمرارية

16. Matching principle

- a. المقابلة مبدأ d. فرض المقابلة c. مبدأ المعادلة b. مبدأ المواجهة

17. Accrual basis

- a. الأساس الاقتصادي b. الأساس الإداري c. الأساس النقدي d. أساس الاستحقاق

18. Accounting equation

- a. القيد المحاسبية d. معادلة الميزانية c. الميزانية المحاسبية b. الميزان المحاسبي

19. Assets

- a. الأصول b. العقارات c. الالتزامات d. حق الملكية

20. Liabilities

- a. الأصول b. العقارات c. الالتزامات d. حق الملكية

21. Owner's Equity

- a. الأصول b. العقارات c. الالتزامات d. حق الملكية

22. Drawings

- a. المسحوبات d. الرسومات c. التحويلات b. المصروفات

Third Question: (20 marks)

Choose the right answer a, b, c, or d:

23. The basic accounting equation may be expressed as

- a. Assets = Equities.
b. Assets – Liabilities = Owner's Equity.
c. Assets = Liabilities + Owner's Equity.
d. all of these.

24. The owner started his business by depositing \$60000 cash in a bank account.

- a. Capital debit 60000& cash credit 60000.
b. Cash debit 60000& accounts payable credit 60000.
c. Cash debit 60000& capital credit 60000.
d. Cash debit 60000& notes payable credit 60000.

25. Purchased furniture from Golden Sun Company amounted to \$8000, paid in cash \$3000 and the rest for note payable after two months.

- a. Furniture debit 8000 & cash credit 8000.
- b. Cash debit 8000 & furniture credit 8000.
- c. Furniture debit 8000 & cash credit 3000, accounts payable credit 5000.
- d. Furniture debit 8000 & cash credit 3000, notes payable credit 5000.

26. Made repairs services to some customers for \$5000, collected \$1000 in cash and the balance on credit.

- a. Cash debit 1000, accounts payable debit 4000, & repair service revenue credit 5000.
- b. Cash debit 1000, accounts receivable debit 4000, & repair service revenue credit 5000.
- c. Cash debit 5000 & accounts receivable credit 1000, repair service revenue credit 4000.
- d. Cash debit 5000 & accounts payable credit 4000, repair service revenue credit 1000.

27. The owner withdrew \$1000 in cash for personal use.

- a. Capital debit 1000 & cash credit 1000.
- b. Cash debit 1000 & capital credit 1000.
- c. Cash debit 1000 & drawing credit 1000.
- d. Drawing debit 1000 & cash credit 1000.

28. The owner made an additional investment in the business by depositing \$15000 in cash in the company bank account.

- a. Cash debit 15000 & capital credit 15000.
- b. Capital debit 15000 & cash credit 15000.
- c. Cash debit 15000 & drawing credit 15000.
- d. Cash debit 15000 & investment credit 15000.

29. Made repairs services to some customers for \$9000, collected \$2000 in cash and the balance for note receivable after one month.

- a. Cash debit 2000, notes receivable debit 7000, & repair service revenue credit 9000.

b. Cash debit 2000, accounts receivable debit 7000, & repair service revenue credit 9000.

c. Cash debit 9000 & notes receivable credit 2000, repair service revenue credit 7000.

d. Cash debit 2000 & accounts payable debit 7000, repair service revenue credit 9000.

30. Paid in cash rent for the month amounted to \$1500.

a. Cash debit 1500 & rent expense credit 1500.

b. Rent expense debit 1500 & cash credit 1500.

c. Cash debit 1500 & rent revenue credit 1500.

d. Rent revenue 1500 & cash credit 1500.

31. On January 14, Franco Industries purchased shop supplies of \$500 on account.

The entry to record the purchase will include

a. a debit to shop Supplies & a credit to Accounts Payable.

b. a debit to shop Supplies Expense & a credit to Accounts Receivable.

c. a debit to shop Supplies & a credit to Cash.

d. a debit to Accounts Receivable & a credit to shop Supplies.

32. Paid \$6000 salaries to employees for services rendered during June.

a. Capital debit 6000 & cash credit 6000.

b. Cash debit 6000 & accounts payable credit 6000.

c. Cash debit 6000 & capital credit 6000.

d. Cash debit 6000 & notes payable credit 6000.

Best Wishes