

## **Test bank: Financial Accounting**

### ***Accounting Cycle: First stage, step 1-3***

#### **TRUE-FALSE STATEMENTS 1 to 18:**

1. Owners of business firms are the only people who need accounting information.
2. Management of a business enterprise is the major external user of information.
3. Accounting communicates financial information about a business enterprise to both internal and external users.
4. Accounting information is used only by external users with a financial interest in a business enterprise.
5. Financial statements are the major means of communicating accounting information to interested parties.
6. Bookkeeping and accounting are one and the same because the bookkeeping function includes the accounting process.
10. The study of accounting will be useful only if a student is interested in working for a profit oriented business firm.
7. Private accountants are accountants who are not employees of business enterprises.
8. The study of accounting is not useful for a business career unless your career objective is to become an accountant.
9. A working knowledge of accounting is not relevant to a lawyer or an architect.
10. Accountants rely on a fundamental business concept—ethical behavior—in reporting financial information.
11. The cost and fair market value of an asset are the same at the time of acquisition and in all subsequent periods.

12. A partnership must have more than one owner.
13. Owners' claims to total business assets take precedence over the claims of creditors because owners invest assets in the business and are liable for losses.
14. The basic accounting equation states that  $\text{Assets} = \text{Liabilities}$ .
15. The purchase of store equipment for cash reduces the owner's equity by an equal amount.
16. The purchase of office equipment on credit increases total assets and total liabilities.
17. Accountants do not have to worry about issues of ethics.
18. In the owner's equity statement, revenues are listed first, followed by expenses, and net income (or net loss).

### **MULTIPLE CHOICE QUESTIONS**

19. The process of recording transactions has become more efficient because
  - a. fewer events can be quantified in financial terms.
  - b. computers are used in processing business events.
  - c. more people have been hired to record business transactions.
  - d. business events are recorded only at the end of the year.
20. Which list below best describes the major services performed by public accountants?
  - a. Bookkeeping, mergers, budgets
  - b. Employee training, auditing, bookkeeping
  - c. Auditing, taxation, management consulting
  - d. Cost accounting, production scheduling, recruiting
21. A private accountant can perform many activities in a business organization but would *not* work in
  - a. budgeting.

b. accounting information systems.

c. external auditing.

d. tax accounting.

22. Generally accepted accounting principles are

a. income tax regulations of the Internal Revenue Service.

b. standards that indicate how to report economic events.

c. theories that are based on physical laws of the universe.

d. principles that have been proven correct by academic researchers.

23. The cost principle requires that when assets are acquired, they be recorded at

a. appraisal value.

b. exchange price paid.

c. selling price.

d. list price.

24. The cost of an asset and its fair market value are

a. never the same.

b. the same when the asset is sold.

c. irrelevant when the asset is used by the business in its operations.

d. the same on the date of acquisition.

25. GAAP stands for

a. Generally Accepted Auditing Procedures.

b. Generally Accepted Accounting Principles.

c. Generally Accepted Auditing Principles.

d. Generally Accepted Accounting Procedures.

26. The proprietorship form of business organization

a. must have at least three owners in most states.

b. represents the largest number of businesses in the United States.

c. combines the records of the business with the personal records of the owner.

d. is characterized by a legal distinction between the business as an economic unit and the owner.

27. The economic entity assumption requires that the activities

a. of different entities can be combined if all the entities are corporations.

b. must be reported to the Securities and Exchange Commission.

c. of a sole proprietorship cannot be distinguished from the personal economic events of its owners.

d. of an entity be kept separate from the activities of its owner.

28. A business organized as a corporation

a. is not a separate legal entity in most states.

b. requires that stockholders be personally liable for the debts of the business.

c. is owned by its stockholders.

d. terminates when one of its original stockholders dies.

29. The assumption that the unit of measure remains sufficiently constant over time is part of the

a. economic entity assumption.

b. cost principle.

c. historical cost principle.

d. monetary unit assumption.

30. A business that enjoys limited liability is a

a. proprietorship.

b. partnership.

c. corporation.

d. sole proprietorship.

31. A problem with the monetary unit assumption is that

a. the currency has not been stable over time.

b. the currency has been stable over time.

c. the currency is a common medium of exchange.

- d. it is impossible to account for international transactions.
32. The basic accounting equation *cannot* be restated as
- Assets – Liabilities = Owner's Equity.
  - Assets – Owner's Equity = Liabilities.
  - Owner's Equity + Liabilities = Assets.
  - Assets + Liabilities = Owner's Equity.
33. The double-entry system requires that each transaction must be recorded
- in at least two different accounts.
  - in two sets of books.
  - in a journal and in a ledger.
  - first as a revenue and then as an expense.
34. A credit is *not* the normal balance for which account listed below?
- Capital account
  - Revenue account
  - Liability account
  - Drawing account
35. Which one of the following represents the expanded basic accounting equation?
- Assets = Liabilities + Owner's Capital + Owner's Drawings – Revenue – Expenses.
  - Assets + Owner's Drawings + Expenses = Liabilities + Owner's Capital + Revenues.
  - Assets – Liabilities – Owner's Drawings = Owner's Capital + Revenues – Expenses.
  - Assets = Revenues + Expenses – Liabilities.
36. Which of the following correctly identifies normal balances of accounts?
- Assets Debit                      Liabilities Credit

Owner's Equity Credit

Revenues Debit                      Expenses Credit  
b. Assets Debit                      Liabilities Credit

Owner's Equity Credit

Revenues Credit                      Expenses Credit  
c. Assets Credit                      Liabilities Debit

Owner's Equity Debit

Revenues Credit                      Expenses Debit  
d. Assets Debit                      Liabilities Credit

Owner's Equity Credit

Revenues Credit                      Expenses Debit

37. The best interpretation of the word credit is the

- a. offset side of an account.
- b. increase side of an account.
- c. right side of an account.
- d. decrease side of an account.

38. In recording transaction in a double-entry system

- a. the number of debit accounts must equal the number of credit accounts.
- b. there must always be entries made on both sides of the accounting equation.
- c. the amount of the debits must equal the amount of the credits.
- d. there must only be two accounts affected by any transaction.

39. An accounting convention is best described as

- a. an absolute truth.
- b. an accounting custom.
- c. an optional rule.
- d. something that cannot be changed.

40. A debit is *not* the normal balance for which account listed below?

- a. Drawing

- b. Cash
- c. Accounts Receivable
- d. Service Revenue

41. An accountant has debited an asset account for \$1,000 and credited a liability account for \$500. What can be done to complete the recording of the transaction?

- a. Nothing further must be done.
- b. Debit an owner's equity account for \$500.
- c. Debit another asset account for \$500.
- d. Credit a different asset account for \$500.

42. An accountant has debited an asset account for \$1,000 and credited a liability account for \$500. Which of the following would be an *incorrect* way to complete the recording of the transaction?

- a. Credit an asset account for \$500.
- b. Credit another liability account for \$500.
- c. Credit an owner's equity account for \$500.
- d. Debit an owner's equity account for \$500.

43. Which of the following is *not* true of the terms debit and credit?

- a. They can be abbreviated as Dr. and Cr.
- b. They can be interpreted to mean increase and decrease.
- c. They can be used to describe the balance of an account.
- d. They can be interpreted to mean left and right.

44. An account will have a credit balance if the

- a. credits exceed the debits.
- b. first transaction entered was a credit.
- c. debits exceed the credits.
- d. last transaction entered was a credit.

45. For the basic accounting equation to stay in balance, each transaction recorded must

- a. affect two or less accounts.
  - b. affect two or more accounts.
  - c. always affect exactly two accounts.
  - d. affect the same number of asset and liability accounts.
46. Which of the following statements is true?
- a. Debits increase assets and increase liabilities.
  - b. Credits decrease assets and decrease liabilities.
  - c. Credits decrease assets and increase liabilities.
  - d. Debits decrease liabilities and decrease assets.
47. Assets normally show
- a. credit balances.
  - b. debit balances.
  - c. debit and credit balances.
  - d. debit or credit balances.
48. An awareness of the normal balances of accounts would help you spot which of the following as an error in recording?
- a. A debit balance in the drawing account
  - b. A credit balance in an expense account
  - c. A credit balance in a liabilities account
  - d. A credit balance in a revenue account
49. If a company has overdrawn its bank balance, then
- a. its cash account will show a debit balance.
  - b. its cash account will show a credit balance.
  - c. the cash account debits will exceed the cash account credits.
  - d. it cannot be detected by observing the balance of the cash account.
50. Which account below is *not* a subdivision of owner's equity?
- a. Drawing
  - b. Revenues
  - c. Expenses



d. Liabilities

51. When an owner makes a withdrawal

- a. it doesn't have to be cash, it could be another asset.
- b. the drawing account will be increased with a credit.
- c. the capital account will be directly increased with a debit.
- d. the drawing account will be decreased with a debit.

52. The drawing account

- a. appears on the income statement along with the expenses of the business.
- b. must show transactions every accounting period.
- c. is increased with debits and decreased with credits.
- d. is not a proper subdivision of owner's equity.

53. Which of the following statements is *not* true?

- a. Expenses increase owner's equity.
- b. Expenses have normal debit balances.
- c. Expenses decrease owner's equity.
- d. Expenses are a negative factor in the computation of net income.

54. A credit to a liability account

- a. indicates an increase in the amount owed to creditors.
- b. indicates a decrease in the amount owed to creditors.
- c. is an error.
- d. must be accompanied by a debit to an asset account.

***B. Exercises:***

1. In the first month of operations, the total of the debit entries to the cash account amounted to \$900 and the total of the credit entries to the cash account amounted to \$500. The cash account has a(n)

- a. \$500 credit balance.

- b. \$800 debit balance.
  - c. \$400 debit balance.
  - d. \$400 credit balance.
2. Dawson's Delivery Service purchased equipment for \$2,500. Dawson paid \$500 in cash and signed a note for the balance. Dawson debited the Equipment account, credited Cash and
- a. nothing further must be done.
  - b. debited the Dawson, Capital account for \$2,000.
  - c. credited another asset account for \$500.
  - d. credited a liability account for \$2,000.
3. Grayton Industries purchased supplies for \$1,000. They paid \$500 in cash and agreed to pay the balance in 30 days. The journal entry to record this transaction would include a
- debit to an asset account for \$1,000, a credit to a liability account for \$500. Which of the following would be the correct way to complete the recording of the transaction?
- a. Credit an asset account for \$500.
  - b. Credit another liability account for \$500.
  - c. Credit the Grayton, Capital account for \$500.
  - d. Debit the Grayton, Capital account for \$500.
4. On January 14, Franco Industries purchased supplies of \$500 on account. The entry to record the purchase will include
- a. a debit to Supplies and a credit to Accounts Payable.
  - b. a debit to Supplies Expense and a credit to Accounts Receivable.
  - c. a debit to Supplies and a credit to Cash.
  - d. a debit to Accounts Receivable and a credit to Supplies.
5. On June 1, 2008, Delbert Inc. reported a cash balance of \$12,000. During June, Delbert made deposits of \$3,000 and made disbursements totalling \$16,000. What is the cash balance at the end of June?

- a. \$1,000 debit balance
- b. \$15,000 debit balance
- c. \$1,000 credit balance
- d. \$4,000 credit balance

6. In the first month of operations for Pocket Industries, the total of the debit entries to the cash account amounted to \$8,000 (\$4,000 investment by the owner and revenues of \$4,000). The total of the credit entries to the cash account amounted to \$5,000 (purchase of equipment \$2,000 and payment of expenses \$3,000). At the end of the month, the cash account has a(n)

- a. \$2,000 credit balance.
- b. \$2,000 debit balance.
- c. \$3,000 debit balance.
- d. \$3,000 credit balance.

7. Denton Company showed the following balances at the end of its first year:

Cash \$ 7,000

Prepaid insurance 700

Accounts receivable 3,500

Accounts payable 2,800

Notes payable 4,200

Denton, Capital 1,400

Denton, Drawing 700

Revenues 21,000

Expenses 17,500

What did Denton Company show as total credits on its trial balance?

- a. \$30,100
- b. \$29,400
- c. \$28,700

d. \$30,800

8. Cerner Company showed the following balances at the end of its first year:

Cash \$ 5,000

Prepaid insurance 500

Accounts receivable 2,500

Accounts payable 2,000

Notes payable 3,000

Cerner, Capital 1,000

Cerner, Drawing 500

Revenues 15,000

Expenses 12,500

What did Cerner Company show as total credits on its trial balance?

a. \$21,500

b. \$21,000

c. \$20,500

d. \$22,000

9. During February 2008, its first month of operations, the owner of Rutwing Enterprises invested cash of \$25,000. Rutwing had cash revenues of \$4,000 and paid expenses of \$7,000. Assuming no other transactions impacted the cash account, what is the balance in Cash at February 28?

a. \$3,000 credit

b. \$22,000 debit

c. \$29,000 debit

d. \$18,000 credit

10. Tritan Company received a cash advance of \$500 from a customer.

As a result of this event,

a. assets increased by \$500.

b. owner's equity increased by \$500.

c. liabilities decreased by \$500.

d. both a and b.

11. Anderson Company purchased equipment for \$1,800 cash. As a result of this event,

a. owner's equity decreased by \$1,800.

b. total assets increased by \$1,800.

c. total assets remained unchanged.

d. Both a and b.

## *Accounting Cycle: Second stage, step 4-7*

### **A. Questions:**

1- The financial statement that reports the revenues and expenses for a period of time such as a year or a month is the

- a. **Balance sheet**   b. **Income statement**   c. **Statement of cash flows**

2- The financial statement that reports the assets, liabilities, and stockholders' (owner's) equity at a specific date is the

- a. **Balance sheet**   b. **Income statement**   c. **Statement of cash flows**

3- Another name for the balance sheet is

- a. **Statement of Operations**   b. **Statement of Financial Position**

4- The balance sheet heading will specify a

- a. **Period of time**   b. **Point in time**

5- Which of the following is a category or element of the balance sheet?

- a. **Expenses**   b. **Gains**   c. **Liabilities**   d. **Losses**

6- Assets are usually reported on the balance sheet at which amount?

- a. **Cost**   b. **Current market value**   c. **Expected selling price**

7- Unearned Revenues is what type of account?

- a. **Asset**   b. **Liability**   c. **Owner's Equity**

8- Which of the following is an asset account?

- a. **Accounts Payable**   b. **Prepaid Insurance**   c. **Unearned Revenue**

9- Which of the following is a contra account?

- a. **Accumulated Depreciation**   b. **Mary Smith, Capital**

10- Under the accrual basis of accounting, revenues are reported in the accounting period when the

- a. **Cash is received**   b. **Service or goods have been delivered**

11- Under the accrual basis of accounting, expenses are reported in the accounting period when the

- a. **Cash is paid**   b. **Expense matches the revenues or is used up**

12- Adjusting entries are usually dated the last day of the accounting period and they convert accounts from the cash basis of accounting to the \_\_\_\_\_ basis of accounting.

13- A common characteristic of an adjusting entry is that it involves a balance sheet account and an \_\_\_\_\_ account.

14- Company S received money in advance of providing services to Company P. The money received before it is earned is an increase to Company S's asset account **Cash**.

The amount unearned should also be reported as

**Another asset                  Liability                  Revenues**

15. Net income results when

- a. Assets > Liabilities.
- b. Revenues = Expenses.
- c. Revenues > Expenses.
- d. Revenues < Expenses.

16. Owner's capital at the end of the period is equal to

- a. owner's capital at the beginning of the period plus net income minus liabilities.
- b. owner's capital at the beginning of the period plus net income minus drawings.
- c. net income.
- d. assets plus liabilities.

17. A balance sheet shows

- a. revenues, liabilities, and owner's equity.
- b. expenses, drawings, and owner's equity.
- c. revenues, expenses, and drawings.
- d. assets, liabilities, and owner's equity.

18. An income statement

- a. summarizes the changes in owner's equity for a specific period of time.

- b. reports the changes in assets, liabilities, and owner's equity over a period of time.
  - c. reports the assets, liabilities, and owner's equity at a specific date.
  - d. presents the revenues and expenses for a specific period of time.
19. If the owner's equity account increases from the beginning of the year to the end of the year, then
- a. net income is less than owner drawings.
  - b. a net loss is less than owner drawings.
  - c. additional owner investments are less than net losses.
  - d. net income is greater than owner drawings.
20. The balance sheet is frequently referred to as
- a. an operating statement.
  - b. the statement of financial position.
  - c. the statement of cash flows.
  - d. the statement of owner's equity.
21. The primary purpose of the statement of cash flows is to report
- a. a company's investing transactions.
  - b. a company's financing transactions.
  - c. information about cash receipts and cash payments of a company.
  - d. the net increase or decrease in cash.
22. All of the financial statements are for a period of time *except* the
- a. income statement.
  - b. owner's equity statement.
  - c. balance sheet.
  - d. statement of cash flows.
23. The ending owner's equity amount is shown on
- a. the balance sheet only.
  - b. the owner's equity statement only.
  - c. both the income statement and the owner's equity statement.
  - d. both the balance sheet and the owner's equity statement.



## General Questions:

### First Question:

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

1. GAAP is
  - a. Generally Accepted Auditing Procedures.
  - b. Generally Accepted Accounting Principles.
  - c. Generally Accepted Auditing Principles.
  - d. Generally Accepted Accounting Procedures.
  
2. After transactions have been recorded in general journal, it is transferred to
  - a. trial balance.
  - b. income statement.
  - c. book of original entry.
  - d. general ledger.
  
3. Which of the following statements is true?
  - a. Debits increase assets and increase liabilities.
  - b. Credits decrease assets and decrease liabilities.
  - c. Credits decrease assets and increase liabilities.
  - d. Debits decrease liabilities and decrease assets.
  
4. Which of the following statements is false?
  - a. Debits increase assets and decrease liabilities.
  - b. Credits decrease assets and increase liabilities.
  - c. Credits increase liabilities and increase revenues.
  - d. Debits decrease assets and increase liabilities.
  
5. A debit is **not** the normal balance for which of the following?
  - a. Asset account
  - b. Drawing account
  - c. Expense account
  - d. Capital account
  
6. A debit to an asset account indicates
  - a. an error.
  - b. a credit was made to a liability account.
  - c. a decrease in the asset.
  - d. an increase in the asset.
  
7. A credit to an asset account indicates
  - a. an error.
  - b. a credit was made to a liability account.
  - c. a decrease in the asset.
  - d. an increase in the asset.
  
8. A credit is the normal balance for which account listed below?
  - a. Drawing.

- b. Cash.
- c. Accounts Receivable.
- d. Service Revenue.

9. Liabilities of a company would *not* include

- a. notes payable.
- b. accounts payable.
- c. wages payable.
- d. cash.

10. Owner's equity can be described as

- a. creditors claim on total assets.
- b. owners claim on total assets.
- c. management claim on total assets.
- d. debtors claim on total assets

11. Liabilities can be described as

- a. creditors claim on total assets.
- b. owners claim on total assets.
- c. management claim on total assets.
- d. debtors claim on total assets

12. When an owner makes a withdrawal

- a. the drawing account will be increased with a debit.
- b. the drawing account will be increased with a credit.
- c. the capital account will be increased with a debit.
- d. the drawing account will be decreased with a debit.

13. Expenses paid in advance are called

- a. prepaid expenses.
- b. Expenses payable.
- c. interim expenses.
- d. unearned expenses.

14. Expenses not yet paid or recorded are called

- a. prepaid expenses.
- b. Expenses payable.
- c. interim expenses.
- d. unearned expenses.

15. Unearned revenues are

- a. received in advance and recorded as liabilities.
- b. received in advance and recorded as assets.
- c. earned but not yet received or recorded.
- d. earned and already received and recorded.

16. Accumulated Depreciation is

- a. an expense account.
  - b. an owner's equity account.
  - c. a liability account.
  - d. a contra asset account.
17. Which of the following statements is false?
- a. Revenues increase owner's equity.
  - b. Revenues have normal credit balances.
  - c. Revenues are a positive factor in the computation of net income.
  - d. Revenues are increased by debits.
18. Which of the following statements is true?
- a. Expenses increase owner's equity.
  - b. Expenses have normal credit balances.
  - c. Expenses are a positive factor in the computation of net income.
  - d. Expenses are increased by debits.
19. A net profit will result during a time period when
- a. liabilities are more than assets.
  - b. drawings are more than investments.
  - c. expenses are more than revenues.
  - d. revenues are more than expenses.
20. A net loss will result during a time period when
- a. liabilities are more than assets.
  - b. drawings are more than investments.
  - c. expenses are more than revenues.
  - d. revenues are more than expenses.

**Second Question:**

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

21. Noran started her business by depositing \$90000 cash in a bank account.
- a. Capital debit 90000 & cash credit 90000.
  - b. Cash debit 90000 & accounts payable credit 90000.
  - c. Cash debit 90000 & capital credit 90000.
  - d. Cash debit 90000 & notes payable credit 90000.
22. Purchased furniture amounted to \$8000, paid in cash \$3000 and the remaining is due within 10 days
- 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.
23. Purchased equipments for \$12000, of which made \$3000 a cash down payment and the rest for note after two months. .

- a. Equipment debit 12000 and cash credit 12000.
  - b. Cash debit 3000, notes receivable debit 9000 and equipment credit 12000.
  - c. Equipment debit 12000, cash credit 3000, and accounts payable credit 9000.
  - d. Equipment debit 12000, cash credit 3000, and notes payable credit 9000.
24. Services rendered to some customers for \$5000, collected \$1000 in cash and the balance on account.
- a. Cash debit 1000, accounts payable debit 4000, & service revenue credit 5000
  - b. Cash debit 1000, accounts receivable debit 4000, & service revenue credit 5000.
  - c. Cash debit 5000 & accounts receivable credit 1000, service revenue credit 4000.
  - d. Cash debit 5000 & accounts payable credit 4000, service revenue credit 1000.
25. Made services to some customers for \$9000, collected \$2000 in cash and the balance for note after one month.
- a. Cash debit 2000, notes receivable debit 7000, & service revenue credit 9000.
  - b. Cash debit 2000, accounts receivable debit 7000, & service revenue credit 9000.
  - c. Cash debit 9000 & notes receivable credit 2000, service revenue credit 7000.
  - d. Cash debit 2000 & accounts payable debit 7000, service revenue credit 9000.
26. 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.
27. 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.
28. Paid \$6000 salaries to employees for services rendered during June.
- a. Service revenue debit 6000 & cash credit 6000 .
  - b. Cash debit 6000 & service revenue credit 6000.
  - c. Cash debit 6000 & salaries expense credit 6000.
  - d. Salaries expense debit 6000 & cash credit 6000.
29. Mariam Company purchased supplies of \$500 on account.
- a. a debit to Supplies 500 & a credit to Accounts Payable 500.
  - b. a debit to Supplies Expense 500 & a credit to Accounts Receivable 500.
  - c. a debit to Supplies 500 & a credit to Cash 500.
  - d. a debit to Accounts Receivable 500 & a credit to Supplies 500.
30. Ahmed Company purchased equipment for \$12000 and supplies for \$1000, paid 3000 in cash and the remaining for note due after 3 months.
- a. debit to Equipment \$12000, a debit to Supplies Expense \$1000, credit to cash 3000 and credit to notes payable 10000.
  - b. debit to Equipment \$12000, a debit to Supplies, \$1000, credit to cash 3000 and credit to notes payable 10000.

- c. debit to Equipment \$12000, a debit to cash \$1000, credit to Supplies 3000 and credit to notes payable 10000.
- d. debit to cash \$3000, a debit to notes payable \$10000, credit to Supplies 3000 and credit to Equipment 10000.

31. Collected \$15000 in cash from account receivable.
- a. Accounts receivable debit 15000 & cash credit 15000.
  - b. Cash debit 15000 & accounts payable credit 15000.
  - c. Cash debit 15000 & capital credit 15000.
  - d. Cash debit 15000 & accounts receivable credit 15000.

32. Paid \$10000 in cash to account payable.
- a. Accounts receivable debit 10000 & cash credit 10000.
  - b. Cash debit 10000 & accounts payable credit 10000.
  - c. Accounts payable debit 10000 & cash credit 10000.
  - d. Cash debit 10000 & accounts receivable credit 10000.

**Use the following information for questions 33–35.**

Denton Company showed the following balances at the end of its first year:

Cash	\$ 7,000
Prepaid insurance	700
Accounts receivable	3,500
Accounts payable	2,800
Notes payable	4,200
Denton, Capital	1,400
Denton, Drawing	700
Revenues	21,000
Expenses	17,500

33. What did Denton Company show as total credits on its trial balance?
- a. \$30,100
  - b. \$29,400
  - c. \$28,700
  - d. \$30,800
34. What did Denton Company show as total assets on its trial balance?
- a. \$11200
  - b. \$29,400
  - c. \$28,700
  - d. \$10500
35. What did Denton Company show as total liabilities on its trial balance?
- a. \$7700
  - b. \$29,400
  - c. \$28,700
  - d. \$7000

**Third Question:**

36. Kent Company purchased office supplies costing \$6,000 and debited Office Supplies for the full amount. At the end of the accounting period, a physical count of office supplies revealed \$2,400 still remaining on hand. The appropriate adjusting entry to be made at the end of the period would be

- a. Debit Office Supplies Expense, \$2,400; Credit Office Supplies, \$2,400.
- b. Debit Office Supplies, \$3,600; Credit Office Supplies Expense, \$3,600.
- c. Debit Office Supplies Expense, \$3,600; Credit Office Supplies, \$3,600.
- d. Debit Office Supplies, \$2,400; Credit Office Supplies Expense, \$2,400.

37. On October 1, Dexter Store paid \$8,000 to Ace Realty for 4 months rent. Prepaid Rent was debited for the full amount. If financial statements are prepared on December 31, the annual adjusting entry to be made by Dexter Shoe Store is:

- a. Debit Rent Expense, \$8,000; Credit Prepaid Rent, \$8,000.
- b. Debit Prepaid Rent, \$6,000; Credit Rent Expense, \$6,000.
- c. Debit Rent Expense, \$6,000; Credit Prepaid Rent, \$6,000.
- d. Debit Rent Expense, \$2,000; Credit Prepaid Rent, \$2,000.

38. On October 1, Dexter Store paid \$8,000 to Ace Realty for 4 months rent. Prepaid Rent was debited for the full amount. If financial statements are prepared on October 31, the monthly adjusting entry to be made by Dexter Shoe Store is:

- a. Debit Rent Expense, \$8,000; Credit Prepaid Rent, \$8,000.
- b. Debit Prepaid Rent, \$2,000; Credit Rent Expense, \$2,000.
- c. Debit Rent Expense, \$6,000; Credit Prepaid Rent, \$6,000.
- d. Debit Rent Expense, \$2,000; Credit Prepaid Rent, \$2,000.

39. ABC Company purchased a computer for \$20000 on January 1. The company expects to use the computer for 3 years. It has \$2000 Residual value. Monthly depreciation expense at 31/12 on the computer is:

- a. \$500.
- b. \$100.
- c. \$1,500.
- d. \$6000.

40. ABC Company purchased a machine for \$27000 on January 1. The company expects to use the machine for 4 years. It has \$3000 Residual value. Annual depreciation expense at 31/12 on the machine is:

- a. \$500.
- b. \$6750.
- c. \$7500.
- d. \$6000.

41. ABC Company purchased an equipment for \$35000 on May 31. The company expects to use the equipment for 5 years. It has \$5000 Residual value. Annual depreciation expense at 31/12 on the equipment is:

- a. \$500.
- b. \$3500.
- c. \$7000.
- d. \$6000.

42. Maple Tree Inc. purchased a 12-month insurance policy on March 1, for \$2400. At March 31, the monthly adjusting journal entry is:

- a. debit to Insurance Expense and a credit to Prepaid Insurance for \$2400.
- b. debit to Prepaid Insurance and a credit to Insurance Expense for \$200.
- c. debit to Insurance Expense and a credit to Prepaid Insurance for \$200.
- d. debit to Insurance Expense and a credit to Prepaid Insurance for \$2000.

43. Maple Tree Inc. purchased a 12-month insurance policy on March 1, for \$2400. At December 31, the annual adjusting journal entry is:

- a. debit to Insurance Expense and a credit to Prepaid Insurance for \$2400.
- b. debit to Prepaid Insurance and a credit to Insurance Expense for \$200.
- c. debit to Insurance Expense and a credit to Prepaid Insurance for \$200.
- d. debit to Insurance Expense and a credit to Prepaid Insurance for \$2000.

44. Adam Company rendered services to some customers on 31/12 for \$4000, but this amount not yet collected or recorded, the adjusting entry is

- a. Cash debit 4000, and service revenue credit 4000.
- b. Accounts receivable debit 4000, and service revenue credit 4000.
- c. Cash debit 4000 and accounts receivable credit 4000.
- d. Service revenue debit 4000 and accounts receivable credit 4000.

45. A gift shop signs a three-month note payable to help finance the shop. The note is signed on November 1 in the amount of \$50,000 with annual interest of 12%. What is the monthly adjusting entry to be made on December 31 for the interest expense accrued to that date:

- a. Interest Expense ..... 1,000  
Interest Payable ..... 1,000
- b. Interest Expense ..... 500  
Interest Payable ..... 500
- c. Interest Expense..... 1,000  
Cash ..... 1,000
- d. Interest Expense ..... 1,000  
Note Payable ..... 1,000

46. A gift shop signs a three-month note payable to help finance the shop. The note is signed on November 1 in the amount of \$50,000 with annual interest of 12%. What is the annual adjusting entry to be made on December 31 for the interest expense accrued to that date:

- a. Interest Expense ..... 1,000  
Interest Payable ..... 1,000
- b. Interest Expense ..... 500  
Interest Payable ..... 500
- c. Interest Expense..... 1,000  
Cash ..... 1,000
- d. Interest Expense ..... 1,000  
Note Payable ..... 1,000

47. Ironton Company's owner's equity at August 1, was \$300,000. During the month, the company earned net income of \$60,000 and owner's drawings were \$20,000. At the 31 of August, what is the balance in owner's equity?

- a. \$260,000
- b. \$300,000

- c. \$340,000
- d. \$380,000

48. On January 1, 2018, Jackson Company reported owner's equity of \$470,000. During the year, the owner withdrew cash of \$20,000. At December 31, 2018, the balance in owner's equity was \$500,000. What amount of net income or net loss would the company report for 2018?
- a. Net income of \$30,000
  - b. Net loss of \$50,000
  - c. Net income of \$10,000
  - d. Net income of \$50,000

Use the following information for questions 49–50.

Jenkins started the year with total assets of \$35,000 and total liabilities of \$20,000. During the year, the business recorded \$17,000 in revenues and \$9,000 in expenses. Jenkins made an additional investment of \$13,000 and withdrew cash of \$5,000 for personal use during the year.

49. The owner's equity at the end of the year was
- a. \$31,000.
  - b. \$16,000.
  - c. \$18,000.
  - d. \$23,000.
50. The net income reported by Jenkins Catering for the year was
- a. \$26,000.
  - b. \$12,000.
  - c. \$8,000.
  - d. \$4,000.

Use the following information for questions 51–53.

The income statement for the year 2008 of Nova Co. contains the following information:

**a. Revenues \$80,000**

**b. Expenses:**

Wages Expense \$45,000

Rent Expense 12,000

Advertising Expense 6,000

Supplies Expense 6,000

Utilities Expense 2,500

Insurance Expense 2,000

**Total expenses 73,500**

Net income       \$ 6500

51. The entry to close the revenues account includes a
- a. debit to Income Summary for \$6,500.
  - b. credit to Income Summary for \$6,500.
  - c. debit to Revenues for \$80,000.
  - d. credit to Revenues for \$80,000.
52. The entry to close the expenses accounts includes a



- a. debit to Income Summary for \$6,500.
- b. credit to Income Summary for \$6,500.
- c. debit to Income Summary for \$73,500.
- d. debit to Expenses for \$73,500.

53. The entry to close Income Summary to Nova, Capital includes

- a. a debit to Revenues for \$80,000.
- b. credits to Expenses totaling \$73,500.
- c. a credit to Income Summary for \$6,500.
- d. a credit to Nova, Capital for \$6,500.

Use the following information for questions 54–60.

The following items are taken from the financial statements of Cerner Company for the year ending December 31, 2008:

Accounts payable	\$ 18,000
Accounts receivable	11,000
Accumulated depreciation – equipment	28,000
Advertising expense	21,000
Cash	15,000
Cerner, Capital (1/1/08)	102,000
Cerner, Drawing	14,000
Depreciation expense	12,000
Insurance expense	3,000
Mortgage	70,000
Prepaid insurance (12-month policy)	6,000
Rent expense	17,000
Salaries expense	32,000
Service revenue	133,000
Supplies	4,000
Supplies expense	6,000
Equipment	210,000

54. What is the company's net income for the year ending December 31, 2008?

- a. \$133,000
- b. \$42,000
- c. \$28,000
- d. \$12,000

55. What is the balance of the owner's equity at December 31, 2008?

- a. \$102,000
- b. \$130,000
- c. \$144,000
- d. \$158,000

56. What are total current assets at December 31, 2008?

- a. \$26,000
- b. \$32,000
- c. \$36,000
- d. \$218,000

57. What is the book value of the equipment at December 31, 2008?
- a. \$238,000
  - b. \$210,000
  - c. \$182,000
  - d. \$170,000
58. What are total current liabilities at December 31, 2008?
- a. \$18,000
  - b. \$70,000
  - c. \$88,000
  - d. \$0
59. What are total long-term liabilities at December 31, 2008?
- a. \$0
  - b. \$70,000
  - c. \$88,000
  - d. \$90,000
60. What is total liabilities and owner's equity at December 31, 2008?
- a. \$176,000
  - b. \$190,000
  - c. \$218,000
  - d. \$232,000

***Best Wishes***