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1. The rules adopted by the accounting profession as guides in preparing financial statements are: \*

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- ☐ A. Comprised of both general and specific principles.
- ☐ B. Known as generally accepted accounting principles.
- ☐ C. Abbreviated as GAAP.
- ☐ D. Intended to make information in financial statements relevant, reliable, and comparable.
- ☒ E. All of these.

2. The accounting assumption that requires every business to be accounted for separately from other business entities, including its owner or owners is known as the: \*

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- ☐ A. Objectivity principle.
- ☒ B. Business entity assumption.
- ☐ C. Going-concern assumption.
- ☐ D. Revenue recognition principle.
- ☐ E. Cost principle.

3. The rule that requires financial statements to reflect the assumption that the business will continue operating instead of being closed or sold unless evidence shows that it will not continue, is the: \*

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- ☒ A. Going-concern principle.
- ☐ B. Business entity principle.
- ☐ C. Objectivity principle.
- ☐ D. Cost Principle.
- ☐ E. Monetary unit principle.

4. If a parcel of land that was originally acquired for \$85,000 is offered for sale at \$150,000, is assessed for tax purposes at \$95,000, is recognized by its purchasers as easily being worth \$140,000, and is sold for \$137,000, the land should be recorded in the purchaser's books at: \*

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- ☐ A. \$95,000.
- ☒ B. \$137,000.
- ☐ C. \$138,500.
- ☐ D. \$140,000.
- ☐ E. \$150,000.

5. The objectivity principle: \*

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- ☐ A. Means that information is supported by independent, unbiased evidence.
- ☒ B. Means that information can be based on what the preparer thinks is true.
- ☐ C. Means that financial statements should contain information that is optimistic.
- ☐ D. Means that a business may not reorganize revenue until cash is received.
- ☐ E. All of these.

Correct answer

- ☒ A. Means that information is supported by independent, unbiased evidence.

6. If equity is \$300,000 and liabilities are \$192,000, then assets equal: \*

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- ☐ A. \$108,000.
- ☐ B. \$192,000.
- ☐ C. \$300,000.
- ☒ D. \$492,000.
- ☐ E. \$792,000.

7. Gross increases in equity from a company's earnings activities are: \*

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- ☐ A. Assets.
- ☐ B. Revenues.
- ☐ C. Liabilities.
- ☒ D. Owner's Equity.
- ☐ E. Expenses.

Correct answer

- ☒ B. Revenues.

8. If the assets of a business increased \$89,000 during a period of time and its liabilities increased \$67,000 during the same period, equity in the business must have: \*

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- ☒ A. Increased \$22,000.
- ☐ B. Decreased \$22,000.
- ☐ C. Increased \$89,000.
- ☐ D. Decreased \$156,000.
- ☐ E. Increased \$156,000.

9. If a company paid \$38,000 of its accounts payable in cash, what was the effect on the assets, liabilities, and equity? \*

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- ☐ A. Assets would decrease \$38,000, liabilities would decrease \$38,000, and equity would decrease \$38,000.
- ☐ B. Assets would decrease \$38,000, liabilities would decrease \$38,000, and equity would increase \$38,000.
- ☒ C. Assets would decrease \$38,000, liabilities would decrease \$38,000, and equity would not change.
- ☐ D. There would be no effect on the accounts because the accounts are affected by the same amount.
- ☐ E. None of these.

10. Source documents include all of the following except:

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- ☐ A. Sales tickets.
- ☒ B. Ledgers.
- ☐ C. Checks.
- ☐ D. Purchase orders.
- ☐ E. Bank statements.

11. The financial statement that reports whether the business earned a profit and also lists the types and amounts of the revenues and expenses is called: \*

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- ☐ A. A Balance sheet.
- ☐ B. A Statement of owner's equity.
- ☐ C. A Statement of cash flows.
- ☐ D. An Income statement.
- ☒ E. A Statement of financial position.

Correct answer

- ☒ D. An Income statement.

12. A debit is used to record: \*

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- ☐ A. A decrease in an asset account.
- ☐ B. A decrease in an expense account.
- ☐ C. An increase in a revenue account.
- ☐ D. An increase in the balance of an owner's capital account.
- ☒ E. An increase in the balance of the owner's withdrawals account.

13. A credit entry: \*

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- ☐ A. Increases asset and expense accounts, and decreases liability, owner's capital, and revenue accounts.
- ☐ B. Is always a decrease in an account.
- ☒ C. Decreases asset and expense accounts, and increases liability, owner's capital, and revenue accounts.
- ☐ D. Is recorded on the left side of a T-account.
- ☐ E. Is always an increase in an account.

14. Wisconsin Rentals purchased office supplies on credit. The general journal entry made by Wisconsin Rentals will include a: \*

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- ☐ A. Debit to Accounts Payable.
- ☐ B. Debit to Accounts Receivable.
- ☐ C. Credit to Cash.
- ☒ D. Credit to Accounts Payable.
- ☐ E. Credit to Wisconsin Rentals, Capital.

15. The record in which transactions are first recorded is the: \*

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- ☐ A. Account balance.
- ☐ B. Ledger.
- ☒ C. Journal.
- ☐ D. Trial balance.
- ☐ E. Cash account.

16. The general journal provides a place for recording: \*

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- ☐ A. The transaction date.
- ☐ B. The names of the accounts involved.
- ☐ C. The amount of each debit and credit.
- ☐ D. An explanation of the transaction.
- ☒ E. All of these.

17. An accountant has debited an account for \$3,500 and credited a liability account for \$2,000. Which of the following would be an incorrect way to complete the recording of this transaction: \*

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- ☐ A. Credit another asset account for \$1,500.
- ☐ B. Credit another liability account for \$1,500.
- ☐ C. Credit an expense account for \$1,500.
- ☐ D. Credit the owner's capital account for \$1,500.
- ☒ E. Debit another asset account for \$1,500.

18. On January 1 of the current year, Bob's Lawn Care Service reported owner's capital totaling \$122,500. During the current year, total revenues were \$96,000 while total expenses were \$85,500. Also, during the current year Bob withdrew \$20,000 from the company. No other changes in equity occurred during the year. If, on December 31 of the current year, total assets are \$196,000, the change in owner's capital during the year was: \*

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- ☐ A. A decrease of \$9,500.
- ☐ B. An increase of \$9,500.
- ☐ C. An increase of \$30,500.
- ☒ D. A decrease of \$30,500
- ☐ E. Impossible to determine from the information provided.

Correct answer

- ☒ A. A decrease of \$9,500.

19. An account balance is: \*

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- ☐ A. The total of the credit side of the account.
- ☐ B. The total of the debit side of the account.
- ☒ C. The difference between the total debits and total credits for an account including the beginning balance.
- ☐ D. Assets = liabilities + equity.
- ☐ E. Always a credit.

20. A company had the following accounts and balances year-end (see attached picture). If all of the accounts have normal balances, what are the totals for the trial balance? \*

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Cash.....	\$30,000
Accounts receivable .....	32,000
Accounts payable .....	20,000
Fees earned.....	65,000
Rent expense .....	15,000
Insurance expense .....	4,800
Supplies.....	5,000
Sam, Capital .....	19,800
Sam, Withdrawals .....	18,000

- ☐ A. \$ 45,200.
- ☐ B. \$ 67,000.
- ☒ C. \$104,800.
- ☐ D. \$209,600.
- ☐ E. \$186,600.