

The following sentences are all correct, if any part of them is changed, it is considered false.

Accounting:

The information system that identifies, records, and communicates the economic events of an organization to interested users.

Generally accepted accounting principles (GAAP):

Common standards that indicate how to report economic events.

Assets:

Resources a business owns.

Income statement:

A financial statement that presents the revenues and expenses and resulting net income or net loss of a company for a specific period.

Balance sheet:

A financial statement that reports the assets, liabilities, and owner's equity at a specific date.

Basic accounting equation:

$\text{Assets} = \text{Liabilities} + \text{Owner's Equity}.$

Bookkeeping:

A part of accounting that involves only the recording of economic events.

Corporation:

A business organized as a separate legal entity under state corporation law, having ownership divided into transferable shares of stock.

Drawings:

Withdrawal of cash or other assets from an unincorporated business for the personal use of the owner(s).

Ethics:

The standards of conduct by which one's actions are judged as right or wrong, honest or dishonest, fair or not fair.

Expanded accounting equation:

Assets, Liabilities, Owner's Capital, Owner's Drawings, Revenues, and Expenses.

Expenses:

The cost of assets consumed or services used in the process of earning revenue.

Financial accounting:

The field of accounting that provides economic and financial information for investors, creditors, and other external users.

Financial Accounting Standards Board (FASB):

A private organization that establishes generally accepted accounting principles (GAAP).

Investments by owner:

the assets an owner puts into the business.

Liabilities:

Creditor claims on total assets.

Managerial accounting:

The field of accounting that provides internal reports to help users make decisions about their companies.

Net income:

The amount by which revenues exceed expenses.

Net loss:

The amount by which expenses exceed revenues.

Owner's equity:

The ownership claim on total assets.

Owner's equity statement:

A financial statement that summarizes the changes in owner's equity for a specific period.

Partnership:

A business owned by two or more persons associated as partners.

Proprietorship:

A business owned by one person.

Revenues:

The gross increase in owner's equity resulting from business activities entered into for earning income.

Auditing:

The examination of financial statements by a certified public accountant in order to express an opinion as to the fairness of presentation.

Management accounting:

An area of accounting within a company that involves such activities as cost accounting, budgeting, design and support of accounting information systems, and tax planning and preparation.

Taxation:

An area of public accounting involving tax advice, tax planning, preparing tax returns, and representing clients before governmental agencies.

Acid-test (quick) ratio:

A measure of a company's immediate short-term liquidity; computed by dividing the sum of cash, short-term investments, and net receivables by current liabilities.

Asset turnover:

A measure of how efficiently a company uses its assets to generate sales; computed by dividing net sales by average assets.

Current ratio:

A measure used to evaluate a company's liquidity and short-term debt-paying ability; computed by dividing current assets by current liabilities.

Debt to total assets ratio:

Measures the percentage of total assets provided by creditors; computed by dividing total debt by total assets.

Earnings per share (EPS):

The net income earned on each share of common stock; computed by dividing net income minus preferred dividends (if any) by the number of weighted-average common shares outstanding.

Inventory turnover:

A measure of the liquidity of inventory; computed by dividing cost of goods sold by average inventory.

Liquidity ratios:

Measures of the short-term ability of the company to pay its maturing obligations and to meet unexpected needs for cash.

Payout ratio:

Measures the percentage of earnings distributed in the form of cash dividends; computed by dividing cash dividends by net income.

Price-earnings (P-E):

Ratio Measures the ratio of the market price of each share of common stock to the earnings per share; computed by dividing the market price of the stock by earnings per share.

Profit margin:

Measures the percentage of each dollar of sales that results in net income; computed by dividing net income by net sales.

Profitability ratios:

Measures of the income or operating success of a company for a given period of time.

Ratio:

An expression of the mathematical relationship between one quantity and another. The relationship may be expressed either as a percentage, a rate, or a simple proportion

Ratio analysis:

A technique for evaluating financial statements that expresses the relationship between selected financial statement data

Receivables turnover:

A measure of the liquidity of receivables; computed by dividing net credit sales by average net receivables.

Return on assets:

An overall measure of profitability; computed by dividing net income by average assets.

Return on common stockholders' equity:

Measures the dollars of net income earned for each dollar invested by the owners; computed by dividing net income minus preferred dividends (if any) by average common stockholders' equity.

Solvency ratios:

Measures of the ability of the company to survive over a long period of time.

Vertical analysis:

A technique for evaluating financial statement data that expresses each item within a financial statement as a percent of a base amount.

Horizontal analysis:

A technique for evaluating a series of financial statement data over a period of time, to determine the increase (decrease) that has taken place,

True or False:

1. Transactions are a business's economic events recorded by accountants.

Correct answer is: true

2. External transactions involve economic events between the company and some outside enterprise.

Correct answer is: true

3. External transactions are economic events that occur entirely within one company.

Correct answer is: false

4. Internal transactions are economic events that occur entirely within one company.

Correct answer is: true

5. Internal transactions involve economic events between the company and some outside enterprise.

Correct answer is: false

6. Document is the paper that provides evidence of the occurrence of a transaction.

Correct answer is: true

7. Document is the accounts that used to record the business transaction.

Correct answer is: false

8. An account is an individual accounting record of increases and decreases in a specific asset, liability, or owner's equity item.

Correct answer is: true

9. An account is an individual accounting record of increases only in a specific asset, liability, or owner's equity item.

Correct answer is: false

10. The term debit indicates the left side of an account, and credit indicates the right side.

Correct answer is: true

11. The term debit indicates the right side of an account, and credit indicates the left side.

Correct answer is: false

12. Journal is an accounting record in which transactions are initially recorded in chronological order.

Correct answer is: true

13. Journal is the entire group of accounts maintained by a company.

Correct answer is: false

14. Ledger is the entire group of accounts maintained by a company.

Correct answer is: true

15. Ledger is an accounting record in which transactions are initially recorded in chronological order.

Correct answer is: true

16. Journalizing is the entering of transaction data in the journal.

Correct answer is: true

17. Journalizing is the entering of transaction data in the ledger.

Correct answer is: false

18. Simple entry is a journal entry that involves only two accounts.

Correct answer is: true

19. Simple entry is a journal entry that involves three or more accounts.

Correct answer is: false

20. Compound entry is a journal entry that involves three or more accounts.

Correct answer is: false

21. Compound entry is a journal entry that involves only two accounts.

Correct answer is: false

22. Posting is the procedure of transferring journal entries to the ledger accounts.

Correct answer is: true

23. Posting is the procedure of transferring entries from ledger to journal.

Correct answer is: false

24. Trial balance is a list of accounts and their balances at a given time.

Correct answer is: true

25. Trial balance is a list of credit accounts and their balances at a given time.

Correct answer is: false

26. Liabilities are resources a business owns, such as: cash, inventory, debtors, and buildings.

Correct answer is: false

27. Assets are creditor claims on total assets, such as loans and notes payable.

Correct answer is: false

28. Owner's equity are the ownership claim on total assets, such as: capital.

Correct answer is: true

29. Revenues are the cost of assets consumed or services used in the process of earning revenue, such as: rent and wages.

Correct answer is: false

30. Expenses are the gross increase in owner's equity resulting from business activities entered into for the purpose of earning income.

Correct answer is: false

31. Net income is the amount by which revenues exceed expenses.

Correct answer is: true

32. Balance sheet is a financial statement that reports the assets, liabilities, and owner's equity at a specific date.

Correct answer is: true

33. Statement of cash is a financial statement that presents the revenues and expenses and resulting net income or net loss of a company for a specific period of time.

Correct answer is: false

34. External transactions involve economic events between the company and some outside enterprise. For example, payment of monthly rent to the landlord, and sale of goods to customers are external transactions.

Correct answer is: true

35. An account is an individual accounting record of increases and decreases in a specific asset, liability, or owner's equity item.

Correct answer is: true

36. Trial balance is a list of accounts and their balances at a given time.

Correct answer is: true

37. Vertical analysis evaluates financial statement data by identify the change in each item from one period to the next.

Correct answer is: false

38. Ratio analysis evaluates financial statement data by expressing the relationship among selected items of financial statement dat(a)

Correct answer is: true

39. Activity Ratios measure the short-term ability of the company to pay its maturing obligations and to meet unexpected needs for cash.

Correct answer is: false

40. Debt Ratio is the relation between the Total Current Assets and Total Current Liabilities.

Correct answer is: false

41. (Quick) Ratio is the relation between the Liquid Assets and Current Liabilities.

Correct answer is: true

42. Horizontal analysis is a technique that expresses each financial statement item as a percent of a base amount.

Correct answer is: false

43. Activity Ratios measure the ability of Assets to generate Revenues or Sales.

Correct answer is: true

44. Return on Equity (ROE) shows how many dollars of net income the company earned for each dollar invested by the owners>

Correct answer is: true

Multiple choice:

1. Which of the following is *not* a step in the accounting Process?

- (a) Identification.
- (b) Verification.
- (c) Recording.
- (d) Communication.

Correct answer is: (b)

2. Which of the following statements about users of accounting information is *incorrect*?

- (a) Management is an internal user.
- (b) Taxing authorities are external users.
- (c) Present creditors are external users.
- (d) Regulatory authorities are internal users.

Correct answer is: d.

3. The three types of business entities are:

- (a) Proprietorships, small businesses, and partnerships.
- (b) Proprietorships, partnerships, and corporations.
- (c) Proprietorships, partnerships, and large businesses.
- (d) Financial, manufacturing, and service companies.

Correct answer is: (b)

4. Net income will result during a time period when:

- (a) Assets exceed liabilities.
- (b) Assets exceed revenues.
- (c) Expenses exceed revenues.
- (d) Revenues exceed expenses.

Correct answer is: d.

5. As of December 31, 2020, EL-Saygh Company has assets of \$3,500 and owner's equity of \$2,000.

What are the liabilities for EL-Saygh Company as of December 31, 2020?

- (a) \$1,500.
- (b) \$1,000.
- (c) \$2,500.
- (d) \$2,000.

Correct answer is: (a)

6. Which of the following events is *not* recorded in the accounting records?

- (a) Equipment is purchased on account.
- (b) An employee is terminated.
- (c) A cash investment is made into the business.
- (d) The owner withdraws cash for personal use.

Correct answer is: (b)

7. EL-Saygh Company buys a \$900 machine on credit. This transaction will affect the:

- (a) Income statement only.
- (b) Balance sheet only.
- (c) Income statement and owner's equity statement only.
- (d) Income statement, owner's equity statement, and balance sheet.

Correct answer is: (b)

8. The financial statement that reports assets, liabilities, and owner's equity is the:

- (a) Income statement.
- (b) Owner's equity statement.
- (c) Balance sheet.
- (d) Statement of cash flow.

Correct answer is: (c)

9. _____ are managers who plan, organize, and run a business. These include, for example, marketing managers, production supervisors, finance directors, and company officers.

- (a) Internal users of accounting information.
- (b) Investors (Owners).
- (c) External users of accounting information.
- (d) Creditors.

Correct answer is: (a)

10. _____ use accounting information to make decisions to buy, hold, or sell ownership shares of a company.

- (a) Internal users of accounting information.
- (b) Investors (Owners).
- (c) External users of accounting information.
- (d) Creditors.

Correct answer is (b)

11. _____ are individuals and organizations outside a company who want financial information about the company.

- (a) Internal users of accounting information.
- (b) Investors (Owners).
- (c) External users of accounting information.
- (d) Creditors.

Correct answer is (c)

12. _____ use accounting information to evaluate the risks of granting credit or lending money.

- (a) Internal users of accounting information.
- (b) Owners.
- (c) External users of accounting information.
- (d) Creditors.

Correct answer is (d)

13. _____ It is the field of accounting that provides economic and financial information for investors, creditors, and other external users

- (a) Financial Accounting.
- (b) Managerial Accounting.
- (c) Cost Accounting.
- (d) Governmental Accounting.

Correct answer is (a)

14. _____ It is the field of accounting that provides internal reports to help users make decisions about their companies.

- (a) Financial Accounting.
- (b) Managerial Accounting.
- (c) Cost Accounting.
- (d) Governmental Accounting.

Correct answer is (b)

15. _____ It is a type of accounting that aims to control a company's costs of production by assessing the input costs of each step of production as well as fixed costs such as depreciation of capital equipment.

- (a) Financial Accounting.
- (b) Managerial Accounting.
- (c) Cost Accounting.
- (d) Governmental Accounting.

Correct answer is (c)

16. _____ is another accounting function mainly found in larger organizations.

- (a) Tax Accounting.
- (b) Auditing.
- (c) Cost Accounting.
- (d) Governmental Accounting.

Correct answer is (b)

17. _____ is defined as "the activity of analyzing, recording, summarizing, reporting and interpreting

the financial transactions of government and nonprofit units.

- (a) Financial Accounting.
- (b) Managerial Accounting.
- (c) Cost Accounting.
- (d) Governmental Accounting.

Correct answer is (d)

18. _____ It is concerned with the problems that take place inside the international and multinational organizations.

- (a) Financial Accounting.
- (b) Managerial Accounting.
- (c) International Accounting.
- (d) Governmental Accounting.

Correct answer is (c)

19. _____ aims to help decision makers at the country level.

- (a) Financial Accounting.
- (b) National Accounting.
- (c) Cost Accounting.
- (d) Governmental Accounting.

Correct answer is (b)

20. _____ an alternative accounting system that aims to provide users with information enabling them to operate businesses and organizations according to Shari'ah, or Islamic law.

- (a) Financial Accounting.
- (b) National Accounting.
- (c) Islamic Accounting.
- (d) Governmental Accounting.

Correct answer is (b)

21. _____ is the business that owned and operated by one person (called proprietor), who is often the manager.

- (a) Sole proprietorship.
- (b) Partnership.
- (c) Corporation.
- (d) Nonbusiness organizations.

Correct answer is (a)

22. _____ is the business that owned by two or more persons, and each owner is a partner.

- (a) Sole proprietorship.
- (b) Partnership.
- (c) Corporation.
- (d) Nonbusiness organizations.

Correct answer is (b)

23. _____ is the business that owned by stockholders, or shareholders. These people own shares of ownership in the business.

- (a) Sole proprietorship.
- (b) Partnership.
- (c) Corporation.
- (d) Nonbusiness organizations.

Correct answer is (c)

24. Ethics are the standards of conduct by which one's actions are judged as:

- (a) Right or wrong.
- (b) Honest or dishonest.
- (c) Fair or not fair.
- (d) All of these options.

Correct answer is (d)

25. Debits:

- (a) Increase both assets and liabilities.
- (b) Decrease both assets and liabilities.
- (c) Increase assets and decrease liabilities.
- (d) Decrease assets and increase liabilities.

Correct answer is (c)

26. A revenue account:

- (a) Is increased by debits.
- (b) Is decreased by credits.
- (c) Has a normal balance of a debit.
- (d) Is increased by credits.

Correct answer is (d)

27. Accounts that normally have debit balances are:

- (a) Assets, expenses, and revenues.
- (b) Assets, expenses, and owner's capital.
- (c) Assets, liabilities, and owner's drawings.
- (d) Assets, owner's drawings, and expenses.

Correct answer is (c)

28. Which of the following is *not* part of the recording process?

- (a) Analyzing transactions.
- (b) Preparing a trial balance.
- (c) Entering transactions in a journal.
- (d) Posting transactions.

Correct answer is (d)

29. Which of the following statements about a journal is *false*?

- (a) It is not a book of original entry.
- (b) It provides a chronological record of transactions.

- (c) It helps to locate errors because the debit and credit amounts for each entry can be readily compared.
- (d) It discloses in one place the complete effect of a transaction.

Correct answer is (b)

30. The purchase of supplies on account should result in:
- (a) A debit to Supplies Expense and a credit to Cash.
 - (b) A debit to Supplies Expense and a credit to Accounts Payable.
 - (c) A debit to Supplies and a credit to Accounts Payable.
 - (d) A debit to Supplies and a credit to Accounts Receivable

Correct answer is (c)

31. The order of the accounts in the ledger is:
- (a) Assets, revenues, expenses, liabilities, owner's capital, owner's drawings.
 - (b) Assets, liabilities, owner's capital, owner's drawings, revenues, expenses.
 - (c) Owner's capital, assets, revenues, expenses, liabilities, owner's drawings.
 - (d) Revenues, assets, expenses, liabilities, owner's capital, owner's drawings.

Correct answer is (b)

32. A ledger:
- (a) Contains only asset and liability accounts.
 - (b) Should show accounts in alphabetical order.
 - (c) Is a collection of the entire group of accounts maintained by a company.
 - (d) Is a book of original entry.

Correct answer is (c)

33. Posting:

- (a) Normally occurs before journalizing.
- (b) Transfers ledger transaction data to the journal.
- (c) Is an optional step in the recording process.
- (d) Transfers journal entries to ledger accounts.

Correct answer is (d)

34. Before posting a payment of \$5,000, the Accounts Payable of Safaa Company had a normal balance of \$16,000. The balance after posting this transaction was:

- (a) \$21,000.
- (b) \$5,000.
- (c) \$11,000.
- (d) Cannot be determined.

Correct answer is (c)

35. A trial balance:

- (a) Is a list of accounts with their balances at a given time.
- (b) Proves the journalized transactions are correct.
- (c) Will not balance if a correct journal entry is posted twice.
- (d) Proves that all transactions have been recorded.

Correct answer is (a)

36. A trial balance will **not** balance if:

- (a) A correct journal entry is posted twice.
- (b) The purchase of supplies on account is debited to Supplies and credited to Cash.

- (c) A \$100 cash drawing by the owner is debited to Owner's Drawings for \$1,000 and credited to Cash for \$100.
- (d) A \$450 payment on account is debited to Accounts Payable for \$45 and credited to Cash for \$45.

Correct answer is (C and D)

37. Comparisons of data within a company are an example of the following comparative basis:

- (a) Industry averages.
- (b) Interacompany.
- (c) Intercompany.
- (d) Both (b) and (c).

Correct answer is (b)

38. In horizontal analysis, each item is expressed as a percentage of the:

- (a) Net income amount.
- (b) Stockholders' equity amount.
- (c) Total assets amount.
- (d) Base year amount.

Correct answer is (d)

39. In vertical analysis, the base amount for depreciation expense is generally:

- (a) Net sales.
- (b) Depreciation expense in a previous year.
- (c) Gross profit.
- (a) Fixed assets.

Correct answer is (a)

40. The following schedule is a display of what type of analysis?

Amount

Percent

Current assets	\$200,000	25%
Property and equipment	<u>600,000</u>	75%
Total assets	<u>\$800,000</u>	

- (a) Horizontal analysis.
- (b) Differential analysis.
- (c) Vertical analysis.
- (d) Ratio analysis.

Correct answer is (c)

41. Samy Corporation reported net sales of \$300,000, \$330,000, and \$360,000 in the years, 2018, 2019, and 2020, respectively.

If 2018 is the base year, what is the trend percentage for 2020?

- (a) 10%.
- (b) 20%.
- (c) 28%.
- (d) 9%.

Correct answer is (b)

42. Which of the following measures is an evaluation of a firm's ability to pay current liabilities?

- (a) Acid-test ratio.
- (b) Current ratio.
- (c) Both (a) and (b).
- (d) None of the above.

Correct answer is (c)

43. A measure useful in evaluating the efficiency in managing inventories is:

- (a) Inventory turnover.
- (b) Average days to sell inventory.

- (c) Both (a) and (b).
- (d) None of the above.

Correct answer is (c)

Listed below are selected account balances for ABC Company on December 31, 2020. Net sales 653,000, Cost Of Goods Sold 283,000, Interest expense 7,000, Interest income 3,000 , Selling, General & administrative expenses 303,000, Loss on sale of land 2,000, Income tax expense 10,000. Required: Prepare Income Statement by using the form single-step income statement.

44. Revenues are.....

- (a) 600,000
- (b) 645,000
- (c) 656,000
- (d) 680,000

Correct answer is (c)

45. Expenses are.....

- (a) 500,000
- (b) 550,000
- (c) 595,000
- (d) 600,000

Correct answer is (c)

46. Income before tax.....

- (a) 55,000
- (b) 61,000
- (c) 70,000
- (d) 75,000

Correct answer is (b)

47. Net income is.....

- (a) 41,000
- (b) 51,000
- (c) 61,000
- (d) 71,000

Correct answer is (b)

Listed below are selected account balances for ABC Company on December 31, 2020. Net sales 653,000, Cost Of Goods Sold 283,000, Interest expense 7,000, Interest income 1,000, Selling, General & administrative expenses 303,000, Income tax expense 10,000. Required: Prepare Income Statement by using the form single-step income statement.

48. Gross profit is

- (a) 270,000
- (b) 370,000
- (c) 470,000
- (d) 570,000

Correct answer is (b)

49. Operating expense is.....

- (a) 7,000
- (b) 303,000
- (c) 283,000
- (d) 310,000

Correct answer is (b)

50. Operating income is.....

- (a) 66,000

- (b) 67,000
- (c) 70,000
- (d) 73,000

Correct answer is (b)

***The following are the account balances on December 31, 2020, for ABC Company

Cash	100,000	Short-term investments	50,000	Accounts receivable	75,000
Inventories	200,000	Stock investments	40,000	Cash value of insurance	10,000
Lands	25,000	Buildings & equipments	150,000	Accumulated depreciation for Buildings & equipments	50,000
Goodwill	275,000	Prepaid insurance	25,000	Receivable from employee	10,000
Accounts payable	80,000	Salaries payable	10,000	Interest payable	15,000
Taxes payable	5,000	Current portion of note	40,000	Note payable	190,000
Mortgage liability	110,000	Capital stock	300,000	Retained earnings	160,000

Required: Prepare the classified balance sheet as of December 31, 2020

51. Total current assets are.....

- (a) 225,000
- (b) 475,000
- (c) 435,000
- (d) 425,000

Correct answer is (d)

52. Long term investment is.....

- (a) 60,000
- (b) 50,000
- (c) 70,000

(d) 80,000

Correct answer is (b)

53. Other assets are.....

(a) 25,000

(b) 35,000

(c) 45,000

(d) 55,000

Correct answer is (b)

54. Total assets are.....

(a) 875,000

(b) 910,000

(c) 990,000

(d) 925,000

Correct answer is (b)

55. Total current liabilities are.....

(a) 110,000

(b) 150,000

(c) 160,000

(d) 175,000

Correct answer is (b)

56. Total long term liabilities are.....

(a) 350,000

(b) 450,000

(c) 550,000

(d) 650,000

Correct answer is (b)

57. Total owner's equity are.....

- (a) 400,000
- (b) 460,000
- (c) 500,000
- (d) 560,000

Correct answer is (b)

58. Total liabilities and owner's equity are.....

- (a) 900,000
- (b) 920,000
- (c) 910,000
- (d) 940,000

Correct answer is (c)

****Presented below is information related to ABC company. Oct. 1 Ahmed begins business as a real estate agent with a cash investment of \$30,000. Oct. 2 Paid rent, \$700, on office space and Oct. 3 Purchases office equipment for \$2,800, on account.

59. Account at oct.1 is.....

- (a) Cash is debt and owner's equity is credit
- (b) Cash is credit and owner's equity is debt
- (c) Cash and owner's equity is debt
- (d) Cash and owner's equity is credit

Correct answer is (a)

60. Account at oct.2 is.....

- (a) Rent expense is debt and cash is credit
- (b) Rent expense is credit and cash is debt

- (c) Rent expense and cash are debt
- (d) Rent expense and cash are credit

Correct answer is (a)

61. Account at oct.3 is.....

- (a) Equipment is credit and account payable is debt
- (b) Equipment is debt and account payable is credit
- (c) Equipment and account payable are debt
- (d) Equipment and account payable are credit

Correct answer is (b)

***** Compute the Receivable Turnover based on the following data: - Total sales \$1,000,000, 80% Credit. - Sales Returns and Allowances \$40,000. - Sales Discount \$60,000. - The beginning balance of Receivable \$138,000. - The ending balance of Receivable \$150,000.

62. Net sales are.....

- (a) 900,000
- (b) 940,000
- (c) 960,000
- (d) 1,000,000

Correct answer is (a)

63. Average receivables are

- (a) 133,000
- (b) 144,000
- (c) 155,000
- (d) 166,000

Correct answer is (b)

64.Receivable turnover is.....

- (a) 2
- (b) 3
- (c) 4
- (d) 5

Correct answer is (d)