

1. Which of the following is not one of the four basic financial statements?
 - A Balance sheet
 - B Audit report**
 - C Income statement
 - D Statement of stockholders equity

2. Which of the following regarding retained earnings is false?
 - A Retained earnings is increased by net income and decreased by a net loss.
 - B Retained earnings is a component of stockholders' equity on the balance sheet.
 - C Retained earnings is an asset on the balance sheet.**
 - D Retained earnings represents earnings not distributed to stockholders in the form of dividends.

3. Which of the following is true regarding the income statement?
 - A The income statement is sometimes called the statement of operations.**
 - B The income statement reports revenues, expenses, and liabilities.
 - C The income statement reports only revenue for which cash was received at the point of sale.
 - D The income statement reports the financial position of a business at a particular point in time.

4. Which of the following is false regarding the balance sheet?
 - A The accounts shown on a balance sheet represent the basic accounting equation for a particular business entity.
 - B The retained earnings balance shown on the balance sheet must agree with the ending retained earnings balance shown on the statement of retained earnings.
 - C The balance sheet reports the changes in specific account balances over a period of time.**
 - D The balance sheet reports the amount of assets, liabilities, and stockholders' equity of an accounting entity at a point in time.

5. Which of the following is not an asset?
 - A Investments
 - B Land
 - C Prepaid Expense
 - D Contributed Capital → Common Stock**

6. The dual effects concept can best be described as follows:
- A When one records a transaction in the accounting system, at least two effects on the basic accounting equation will result.**
 - B When an exchange takes place between two parties, both parties must record the transaction.
 - C When a transaction is recorded, both the balance sheet and the income statement must be impacted.
 - D When a transaction is recorded, one account will always increase and one account will always decrease.
7. The T-account is a tool commonly used for analyzing which of the following?
- A Increases and decreases to a single account in the accounting system.
 - B Debits and credits to a single account in the accounting system.
 - C Changes in specific account balances over a time period.
 - D All of the above describe how T-accounts are used by accountants.**
8. Which of the following describes how assets are listed on the balance sheet?
- A In alphabetical order
 - B In order of magnitude, lowest value to highest value
 - C From most liquid to least liquid**
 - D From least liquid to most liquid
9. Which of the following statements are true regarding the balance sheet?
- 1. One cannot determine the true fair market value of a company by reviewing its balance sheet.
 - 2. Certain internally generated assets, such as a trademark, are not reported on a company's balance sheet.
 - 3. A balance sheet shows only the ending balances, in a summarized format, of all balance sheet accounts in the accounting system as of a particular date.
- A None are true.
 - B Statements 1 and 2 only are true.
 - C Statements 2 and 3 only are true.
 - D All statements are true.**
10. Which of the following is not one of the four criteria that normally must be met for revenue to be recognized according to the revenue principle for

accrual basis accounting?

- A Cash has been collected.**
- B Services have been performed.
- C The price is determinable.
- D Evidence of an arrangement exists.

11. The matching principle controls

- A Where on the income statement expenses should be presented.
- B When costs are recognized as expenses on the income statement.**
- C The ordering of current assets and current liabilities on the balance sheet.
- D How costs are allocated between Cost of Sales (sometimes called Cost of Goods Sold) and general and administrative expenses.

12. When expenses exceed revenues in a given period,

- A Retained earnings are not impacted.
- B Retained earnings are decreased.**
- C Retained earnings are increased.
- D One cannot determine the impact on retained earnings without additional information.

13. On January 1, 2011, Anson Company started the year with a \$250,000 credit balance in Retained Earnings and a \$300,000 balance in Contributed Capital. During 2011, the company earned net income of \$50,000, declared a dividend of \$15,000, and issued more stock for \$12,500. What is total stockholders' equity on December 31, 2011?

- A \$692,500.
- B \$597,500.**
- C \$585,000.
- D None of the above.

14. During 2011, CliffCo Inc. incurred operating expenses of \$200,000, of which \$150,000 was paid in cash; the balance will be paid in January 2012. Transaction analysis of operating expenses for 2011 should reflect only the following:

- A Decrease stockholders' equity, \$150,000; decrease assets, \$150,000.
- B Decrease assets, \$200,000; decrease stockholders' equity, \$200,000.
- C Decrease stockholders' equity, \$200,000; decrease assets, \$150,000; increase liabilities, \$50,000.**
- D Decrease assets, \$200,000; increase liabilities, \$50,000; decrease stockholders' equity, \$150,000.

- E None of the above is correct.
15. Which of the following is the entry to be recorded by a law firm when it receives a \$2,000 retainer from a new client at the initial client meeting?
- A Debit to Cash, \$2,000; credit to Legal Fees Revenue, \$2,000.
 - B Debit to Accounts Receivable, \$2,000; credit to Legal Fees Revenue, \$2,000.
 - C Debit to Unearned Revenue, \$2,000; credit to Legal Fees Revenue, \$2,000.
 - D Debit to Cash, \$2,000; credit to Unearned Revenue, \$2,000.**
 - E Debit to Unearned Revenue, \$2,000; credit to Cash, \$2,000.
16. Which of the following accounts would not appear in a closing entry?
- A Salary Expense
 - B Interest Income
 - C Accumulated Depreciation**
 - D Retained Earnings
17. Which account is least likely to appear in an adjusting journal entry?
- A Interest Receivable
 - B Cash**
 - C Property Tax Expense
 - D Salaries Payable
18. On June 1, 2010, Oakcrest Company signed a three-year \$100,000 note payable with 9 percent interest. Interest is due on June 1 of each year beginning in 2011. What amount of interest expense should be reported on the income statement for the year ended December 31, 2010?
- A \$5,250**
 - B \$6,000
 - C \$6,750
 - D \$9,000
19. Failure to make an adjusting entry to recognize accrued salaries payable would cause which of the following?
- A An understatement of expenses, liabilities, and stockholders' equity.
 - B An understatement of expenses and liabilities and an overstatement of stockholders' equity.**
 - C An overstatement of assets and stockholders' equity.
 - D An overstatement of assets and liabilities.

20. An adjusted trial balance
- A Shows the ending account balances in a “debit” and “credit” format before posting the adjusting journal entries.
 - B Is prepared after closing entries have been posted.
 - C Shows the ending account balances resulting from the adjusting journal entries in a “debit” and “credit” format.**
 - D Is a tool used by financial analysts to review the performance of publicly traded companies.
21. JJ Company owns a building. Which of the following statements regarding depreciation as used by accountants is false?
- A As depreciation is recorded, stockholders’ equity is reduced.
 - B As depreciation is recorded, the net book value of the asset is reduced.
 - C As the value of the building decreases over time, it “depreciates.”**
 - D Depreciation is an estimated expense to be recorded over the building’s estimated useful life.

Remarks: Change in market value is ignored in the balance sheet. If the market value of equipment increases at the end of the year, NO ADJUSTMENT will be made. Despite the market value, the company still has to do depreciation every year as long as the company consumes the long-term assets to generate revenue.

22. At the beginning of 2011, Donna Company had \$1,000 of supplies on hand. During 2011, the company purchased supplies amounting to \$6,400 (paid for in cash and debited to Supplies). At December 31, 2011, a count of supplies reflected \$2,600. The adjusting entry Donna Company would record on December 31, 2011, to adjust the Supplies account would include a
- A Debit to Supplies for \$2,600.
 - B Credit to Supplies Expense for \$4,800.
 - C Credit to Supplies for \$2,600.
 - D Debit to Supplies Expense for \$4,800.**
23. Upon review of the most recent bank statement, you discover that you recently received an “insufficient funds check” from a customer. Which of the following describes the actions to be taken when preparing your bank reconciliation?

	Balance per Books	Balance per Bank Statement
A	No change	Decrease
B	Decrease	Increase
C	Decrease	No change
D	Increase	Decrease

24. Which of the following is not a step toward effective internal control over cash?

- A Require signatures from a manager and one financial officer on all checks.
- B Require that cash be deposited daily at the bank.
- C Require that the person responsible for removing the cash from the register have no access to the accounting records.
- D All of the above are steps toward effective internal control.**

~~25. Which of the following is an example of detective control?~~

- ~~A Time clocks are used to record time worked.~~
- ~~B Receiving goods and paying for merchandise are assigned to different individuals.~~
- ~~C External auditors perform audit in accordance with specific laws or accounting standards on the financial statements of companies.~~
- ~~D Employees are required to take compulsory vacations.~~

C is not an example of an internal control measure. Detective control includes audit. But it relates to INTERNAL AUDIT. Internal auditors are the employees of the company who detect the error in financial statement and monitor internal control policy of the company. External audit is not related to internal control. Instead, external auditors EVALUATE the internal control of the company to determine the work he/she should carry out.

26. Which of the following is not an example of the control measures listed to its left?

	Control Activities	Detective Controls → Examples
A	Physical control	Store men locks warehouses and storage cabinets for inventory and records.
B	Segregation of duties	Cashiers counts the money in the cash drawer at the end of the workday
C	Proper Authorization	Purchasing managers sign all purchase orders prepared by purchasing clerks.

D	Audits	Internal auditors review the activities of departments and individuals to determine whether prescribed internal controls are being followed.
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27. Which of the following is (are) an example(s) of cash and cash equivalent?

1. Marketable securities
2. 6-month note receivable
3. coins

A (3) only

B (1) and (2) only

C (1) and (3) only

D All of the above