1. The balance sheet of the Algonquin Company reported assets of $50,000, liabilities of $22,000 and common stock of $15,000. Based on this information only, the amount or balance for retained earnings must be   
A. $7,000  
B. $57,000  
C. $13,000  
D. $87,000

Answer: C

*Assets = Liabilities + Stockholders’ Equity*

*50,000 = 22,000 + Stockholders’ Equity*

*Stockholders’ Equity = Common Stock + Retained Earnings*

*50,000 = 22,000 + 15,000 + Retained Earnings*

*Retained Earnings = 50,000 – 37,000 = 13,000*

2. . If Ballard Company reported assets of $500 and liabilities of $200, Ballard's stockholders’ equity totaled   
A. $300.  
B. $500.  
C. $700.  
D. Can not be determined.

Answer: A

*Assets = Liabilities + Stockholders’ Equity*

*500 = 200 + SHE*

*SHE = 500 – 200 = 300*

3. The transaction, "provided services for cash," affects which two accounts?   
A. Revenue and Expense  
B. Cash and Revenue  
C. Cash and Expense  
D. Cash and Dividends

Answer: B

4. Which of the following accounts are permanent?   
A. Retained earnings.  
B. All income statement accounts.  
C. Dividends.  
D. All balance sheet accounts including dividends.

Answer: A

5. Which of the following accounts would **not** appear on a balance sheet?   
A. Service Revenue.  
B. Salaries Payable.  
C. Unearned Revenue.  
D. Neither Service Revenue nor Unearned Revenue would appear on a balance sheet.

Answer: A

6. Warren Enterprises had the following events during 2016:  
The business issued $40,000 of common stock to its stockholders.  
The business purchased land for $24,000 cash.  
Services were provided to customers for $32,000 cash.  
Services were provided to customers for $10,000 on account.  
The company borrowed $32,000 from the bank.  
Operating expenses of $24,000 were incurred and paid in cash.  
Salary expense of $1,600 was accrued.  
A dividend of $8,000 was paid to the stockholders of Warren Enterprises.  
Assuming the company began operations during 2016, the amount of retained earnings as of December 31, 2016 would be:   
A. $10,000  
B. $8,400  
C. $16,400  
D. $42,000

Answer: B

*Beginning Balance = 0*

*Add Net Income = 10000 + 32000 – 1600 – 24000 = 16,400*

*Subtract Dividends = 8,000*

*Ending Balance = 0 + 16,400 – 8,000 = 8,400*

7. Rushmore Company provided services for $45,000 cash during the 2016 accounting period. Rushmore incurred $36,000 expenses on account during 2016, and by the end of the year, $9,000 of that amount had been paid with cash. Assuming that these are the only accounting events that affected Rushmore during 2016,   
A. The amount of net loss shown on the income statement is $9,000.  
B. The amount of net income shown on the income statement is $27,000.  
C. The amount of net income shown on the income statement is $9,000.  
D. The amount of net income shown on the balance sheet is $27,000.

Answer: C

*Net Income = Revenues – Expenses*

*Net Income = 45,000 – 36,000*

*Net Income = 9,000*

8.  Nelson Company experienced the following transactions during 2016, its first year in operation.  
1. Issued $12,000 of common stock to stockholders.  
2. Provided $4,600 of services on account.  
3. Paid $3,200 cash for operating expenses.  
4. Collected $3,800 of cash from accounts receivable.  
5. Paid a $200 cash dividend to stockholders.

The amount of net income recognized on Nelson Company's 2016 income statement is:   
A. $1,400.  
B. $800.  
C. $1,000.  
D. $1,200.

Answer: A

*Net Income = Revenues – Expenses*

*Net Income = 4,600 – 3,200 = 1,400*

9. Nelson Company experienced the following transactions during 2016, its first year in operation.  
1. Issued $12,000 of common stock to stockholders.  
2. Provided $4,600 of services on account.  
3. Paid $3,200 cash for operating expenses.  
4. Collected $3,800 of cash from accounts receivable.  
5. Paid a $200 cash dividend to stockholders.

The amount of retained earnings appearing on Nelson Company's December 31, 2016 balance sheet is:   
A. $1,200.  
B. $1,000.  
C. $1,400.  
D. $13,200.

Answer: A

*Beginning Balance = 0*

*Add Net Income = 1,400*

*Subtract Dividends = 200*

*Ending Balance = 0 + 1,400 – 200 = 1,200*

10. Gomez Company collected $9,000 on September 1, 2016 from a customer for services to be provided over a one-year period beginning on that date. How much revenue would Gomez Company report related to this contract on its income statement for the year ended December 31, 2016?  
A. $4,000  
B. $9,000  
C. $3,000  
D. $0

Answer C.

*4/12 x 9,000 = 3,000*

11. Which of the following financial statement elements is closed at the end of an accounting cycle?   
A. Dividends  
B. Common stock  
C. Assets  
D. Liabilities

Answer: A

12. Which of the following accounts is **not** closed at the end of an accounting cycle?   
A. Revenues  
B. Retained earnings  
C. Dividends  
D. Expenses

Answer: B

13. On November 1, 2016, Shumate Company paid $1,200 in advance for an insurance policy that covered the company for six months. Assuming that Schumacher recorded this purchase as an asset, the adjusting entry required on December 31, 2016 would include:   
A. a debit to Prepaid Insurance for $400.  
B. a credit to Prepaid Insurance for $400.  
C. a debit to Insurance Expense for $1,200.  
D. a credit to Insurance Expense for $1,200.

Answer: B

*2/6 \* 1,200 = 400*

14. The closing entry for the Dividends account would involve which of the following?   
A. A credit to Retained Earnings  
B. A credit to Dividends  
C. A credit to Common Stock  
D. A credit to Cash

Answer: B

15. Which one of the following would not be included in a closing entry at the end of the accounting year?   
A. A credit to rent expense  
B. A debit to unearned revenue  
C. A debit to service revenue  
D. A credit to dividends

Answer: B

16. If a company purchases equipment costing $4,500 on credit, the effect on the accounting equation would be:

A) Assets increase $4,500 and liabilities decrease $4,500.

B) Equity decreases $4,500 and liabilities increase $4,500.

C) Liabilities decrease $4,500 and assets increase $4,500.

D) Assets increase $4,500 and liabilities increase $4,500.

E) Equity increases $4,500 and liabilities decrease $4,500.

Answer: D

17. Net Income:

A) Decreases equity.

B) Represents the amount of assets stockholders put into a business.

C) Equals assets minus liabilities.

D) Is the excess of revenues over expenses.

E) Represents stockholders’ claims against assets.

Answer: D

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

A) $108,000.

B) $192,000.

C) $300,000.

D) $492,000.

E) $792,000.

Answer: D

*Assets = Liabilities + Stockholders’ Equity*

*Assets = 192,000 + 300,000*

*Assets = 492,000*

19. If Houston Company billed a client for $10,000 of consulting work completed, the accounts receivable asset increases by $10,000 and:

A) Accounts payable decreases $10,000.

B) Accounts payable increases $10,000.

C) Cash increases $10,000.

D) Revenue increases $10,000.

E) Revenue decreases $10,000.

Answer: D

20. Trimble Graphic Design receives $1,500 from a client billed in a previous month for services provided. Which of the following general journal entries will Trimble Graphic Design make to record this transaction?

A)

|  |  |  |
| --- | --- | --- |
| Cash | 1,500 |  |
| Accounts Receivable |  | 1,500 |

B)

|  |  |  |
| --- | --- | --- |
| Cash | 1,500 |  |
| Unearned Design Revenue |  | 1,500 |

C)

|  |  |  |
| --- | --- | --- |
| Accounts Receivable | 1,500 |  |
| Unearned Design Revenue |  | 1,500 |

D)

|  |  |  |
| --- | --- | --- |
| Cash | 1,500 |  |
| Design Revenue |  | 1,500 |

E)

|  |  |  |
| --- | --- | --- |
| Accounts Receivable | 1,500 |  |
| Cash |  | 1,500 |

Answer: A

21. If cash is received from customers in payment for products or services that have not yet been delivered to the customers, the business would record the cash receipt as:

A) A debit to an unearned revenue account.

B) A debit to a prepaid expense account.

C) A credit to an unearned revenue account.

D) A credit to a prepaid expense account.

E) No entry is required at the time of collection.

Answer: C

22. The balance column in a ledger account is:

A) An account entered on the balance sheet.

B) A column for showing the balance of the account after each entry is posted.

C) Another name for the dividends account.

D) An account used to record the transfers of assets from a business to its owner(s).

E) A simple form of account that is widely used in accounting to illustrate the debits and credits required in recording a transaction.

Answer: B

23. A record in which the effects of transactions are first recorded and from which transaction amounts are posted to the ledger is a(n):

A) Account.

B) Trial balance.

C) Journal.

D) T-account.

E) Balance column account.

Answer: C

24. Jackson Consulting had the following accounts and balances at December 31:

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| Account | Debit | |  | Credit | | |
| Cash | $ | 20,000 |  |  |  |  | |
| Accounts Receivable |  | 6,000 |  |  |  |  | |
| Prepaid Insurance |  | 1,500 |  |  |  |  | |
| Supplies |  | 5,000 |  |  |  |  | |
| Accounts Payable |  |  |  | $ | 500 |  | |
| Common Stock |  |  |  |  | 9,000 |  | |
| Retained Earnings |  |  |  |  | 7,200 |  | |
| Dividends |  | 1,000 |  |  |  |  | |
| Service Revenue |  |  |  |  | 20,000 |  | |
| Utilities Expense |  | 2,000 |  |  |  |  | |
| Salaries Expense |  | 1,200 |  |  |  |  | |
| Totals | $ | 36,700 |  | $ | 36,700 |  | |

Using the information in the table, calculate Jackson Consulting's reported net income for the period.

A) $16,800.

B) $15,800.

C) $15,300.

D) $10,300.

E) $23,200.

Answer: A

*Net Income = Revenues – Expenses*

*Net Income = 20,000 – (2,000+1,200) = 16,800*

25. At the end of its first month of operations, Michael’s Consulting Services reported net income of $25,000. They also had account balances of: Cash, $18,000; Office Supplies, $2,000 and Accounts Receivable $10,000. The sole stockholder’s total investment in exchange for common stock for this first month was $5,000. There were no dividends in the first month.

Calculate the **amount of total equity** to be reported on the balance sheet at the end of the month.

A) $30,000

B) $25,000

C) $20,000

D) $5,000

E) $7,000

Answer: A

*Stockholders’ Equity = Common Stock + Retained Earnings*

*Retained Earnings = 0 + 25,000 – 0 = 25,000 (by the BASE method)*

*Stockholders’ Equity = 5,000 + 25,000 = 30,000*

26. On July 1 of the current calendar year, Plum Co. paid $7,500 cash for management services to be performed over a two-year period beginning July 1. Plum follows a policy of recording all prepaid expenses to asset accounts at the time of cash payment. The adjusting entry on December 31, of the current year for Plum would include:

A) A debit to an expense and a credit to a prepaid expense for $5,625.

B) A debit to a prepaid expense and a credit to Cash for $5,625.

C) A debit to an expense and a credit to a prepaid expense for $1,875.

D) A debit to a prepaid expense and a credit to an expense for $1,875.

E) A credit to a liability and a debit to a prepaid expense for $1,875.

Answer: C

*Explanation:*

*$7,500/24 months = $312.50 per month. $312.50 per month x 6 months = $1,875*.

27. Mary Martin, the owner of Martin Consulting, Inc., started the business by investing $40,000 cash. Identify the general journal entry below that Martin Consulting, Inc. will make to record the transaction.    
 

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
| **A.** | |  |  |  | | --- | --- | --- | | Cash | 40,000 |  | | Common Stock |  | 40,000 | |

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
| B. | |  |  |  | | --- | --- | --- | | Common Stock | 40,000 |  | | Cash |  | 40,000 | |

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
| C. | |  |  |  | | --- | --- | --- | | Investments | 40,000 |  | | Cash |  | 40,000 | |

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
| D. | |  |  |  | | --- | --- | --- | | Investments | 40,000 |  | | Common Stock |  | 40,000 | |

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
| E. | |  |  |  | | --- | --- | --- | | Cash | 40,000 |  | | Increased Equity |  | 40,000 | |

28. Prior to recording adjusting entries, the Office Supplies account had a $359 debit balance. A physical count of the supplies showed $105 of unused supplies available. The required adjusting entry is:

A) Debit Office Supplies $105 and credit Office Supplies Expense $105.

B) Debit Office Supplies Expense $105 and credit Office Supplies $105.

C) Debit Office Supplies Expense $254 and credit Office Supplies $254.

D) Debit Office Supplies $254 and credit Office Supplies Expense $254.

E) Debit Office Supplies $105 and credit Supplies Expense $254.

Answer: C

*359 – 105 = 254*

29. On April 1, a company paid the $1,350 premium on a three-year insurance policy with benefits beginning on that date. What amount of the insurance expense will be reported on the annual income statement for the year ended December 31?

A) $1,350.00.

B) $450.00.

C) $1,012.50.

D) $337.50.

E) $37.50.

Answer: D

*Explanation: $1,350 \* 9/36 = $337.50*

30. The adjusting entry to record the salaries earned due to employees for services provided but unpaid at the end of the accounting period affects the accounts in which of the following ways?

A) Debit Salaries Payable and credit Salaries Expense.

B) Debit Salaries Expense and credit Cash.

C) Debit Accrued Salaries and credit Salaries Payable.

D) Debit Cash and credit Salaries Expense.

E) Debit Salaries Expense and credit Salaries Payable.

Answer: E