Multiple Choice Questions (Enter your answers on the enclosed answer sheet)

1. A corporation:

   a. can continue indefinitely
   b. is owned by stockholders
   c. has limited risk to stockholders
   d. All of the above.

2. The Sarbanes-Oxley Act was passed to:

   a. prevent fraud at public companies
   b. replace all of the old accounting procedures with new ones
   c. improve the accuracy of the company's financial reporting
   d. a and c only

3. A legal firm would be considered a:

   a. merchandise company
   b. manufacturer
   c. service company
   d. None of the above.

4. Which of the following is not an asset?

   a. Cash
   b. Accounts Receivable
   c. Accounts Payable
   d. Buildings

5. If total liabilities increased by $6,000 and the assets increased by $8,000 during the accounting period, what is the change in the owner's equity amount?

   a. increase of $2,000
   b. decrease of $2,000
   c. increase of $10,000
   d. decrease of $10,000

6. The claims of creditors against the assets are:

   a. expenses
   b. revenues
   c. liabilities
   d. owner's equity

7. The Owner's Equity of Logan's Company is equal to one-quarter of the total assets. Liabilities equal $60,000. What is the amount of Owner's Equity?

   a. $40,000
   b. $20,000
   c. $30,000
   d. None of the above.

8. Assets are equal to:

   a. liabilities + owner's equity
   b. liabilities - owner's equity
   c. liabilities - revenues
   d. revenues - expenses

9. A compound entry is:

   a. a transaction involving more than one debit and/or credit
   b. used to prepare the trial balance
   c. the same as the chart of accounts
   d. found on the income statement

10. A formal account that has columns for date, explanation, post reference, debit, and credit is called the:

    a. T account
    b. standard account form
    c. ledger
    d. chart of accounts

11. A ledger:

    a. is a group of accounts and their balances
    b. can replace the financial statements
    c. is the same as a chart of accounts
    d. None of the above.

12. The left side of any account is the:

    a. debit side
    b. credit side
    c. ending balance
    d. footings

13. The right side of any account is the:

    a. debit side
    b. credit side
    c. ending balance
    d. footings

14. What is the proper entry to show the owner making an investment in the company?

    a. a credit to Cash and a debit to Capital
    b. a debit to Cash and a credit to Capital
    c. a debit to Cash and a credit to Revenue
    d. a credit to Cash and a debit to Revenue

15. Which of the following entries would be used to record the billing of fees earned?

    a. Debit Accounts Receivable and credit Rental Fees
    b. Credit Cash and credit Rental Fees
    c. Debit Cash and credit Rental Fees
    d. Debit Cash and debit Rental Fees

16. Which of the statements of the rules of debit and credit is true?

    a. Decrease Accounts Receivable with a credit and the normal balance is a credit.
    b. Increase Accounts Payable with a credit and the normal balance is a credit.
    c. Increase Capital with a debit and the normal balance is a debit.
    d. Decrease Cash with a debit and the normal balance is a debit.

17. The posting reference column in the ledger is:

    a. used to record the journal and page number the transactions originated
    b. used to record the ledger number
    c. used to record the date
    d. not used

18. A credit to a liability account was posted to an owner's equity account. This would cause:

    a. assets to be overstated
    b. liabilities to be understated
    c. owner's equity to be understated
    d. net income to be overstated

19. A credit to an asset account was posted to a revenue account. This would cause:

    a. assets to be understated
    b. liabilities to be understated
    c. capital to be understated
    d. revenue to be overstated

20. A debit to a liability account was posted to a revenue account. This would cause:

    a. assets to be overstated
    b. liabilities to be overstated
    c. capital to be overstated
    d. revenue to be overstated

21. The posting reference column on the general journal:

    a. shows which transactions have been posted to the ledger
    b. displays to which accounts the transactions have been posted
    c. allows us to cross reference to the general ledger
    d. All of the above.

22. Which of the following would cause the trial balance to be out of balance?

    a. a debit to Cash and a debit to Equipment for the same amount
    b. a credit to Cash and a debit to Supplies for the same amount
    c. a debit to Accounts Receivable and a credit to Accounting Fees for the same amount
    d. All of the above.

23. An overpayment was discovered in computing and paying the wages of a Plum Hollow Country Club employee. When the employee returns the amount of the overpayment, Plum Hollow should make which of the following entries?

    a. Cash, debit; Wages Expense, credit
    b. Wages Payable, debit; Wages Expense, credit
    c. Wages Expense, debit; Cash, credit
    d. Wages Expense, debit; Wages Payable, credit

24. The adjustment to record supplies used during the period would be:

    a. debit Supplies; credit Supplies Expense
    b. debit Supplies Expense; credit Cash
    c. debit Supplies Expense; credit Supplies
    d. debit Supplies; credit Cash

25. A contra-asset is:

    a. in reality a liability
    b. an asset with a debit balance
    c. an account with an opposite balance of a normal asset
    d. an account that increases the asset

26. If the adjustment for Supplies used during the period was not made:

    a. expenses would be too low
    b. assets would be too low
    c. expenses would be too high
    d. revenue would be too high

27. After the adjustment for depreciation has been made, the original cost of the equipment:

    a. increases with a credit
    b. decreases with a debit
    c. remains the same
    d. None of the above.

28. The adjustment that is made to allocate the cost of a building over its expected life is called:

    a. depreciation
    b. residual value
    c. accumulated depreciation
    d. None of the above.

29. Logan's Snowboards estimated depreciation for office equipment at $250. The adjusting entry to record the depreciation would include a:

    a. debit to Accumulated Depreciation for $250
    b. credit to Depreciation Expense for $250
    c. credit to Accumulated Depreciation for $250
    d. credit to Office Equipment for $250

30. When making the adjustment for prepaid insurance, instead of writing off only the time that has passed the entire policy was written off. This would:

    a. overstate the assets
    b. overstate the liabilities
    c. understate net income
    d. None of the above.

31. Which of the following is not a temporary account?

    a. Wages Expense
    b. Service Fees
    c. Rent Expense
    d. Capital

32. The entry to close Income Summary (net loss) to Capital was omitted. This error will cause:

    a. the ending capital to be overstated
    b. the ending capital to be understated
    c. no error in the ending capital balance
    d. None of the above.

33. When closing the Withdrawal account:

    a. Capital would increase
    b. Capital would decrease
    c. Capital would remain the same
    d. None of the above.

34. The entry to close the Depreciation Expense account would cause:

    a. the Capital account balance to increase
    b. the Capital account balance to decrease
    c. the Depreciation Expense account balance to decrease
    d. None of the above.

35. J. Oros showed a net loss of $3,200. The entry to close the Income Summary account would include a:

    a. debit to Oros, Capital, $3,200
    b. debit to Income Summary , $3,200
    c. credit to Oros, Capital, $3,200
    d. credit to Cash, $3,200

36. After closing the revenue, expense, and withdrawal accounts, the capital increased by $2,000. Which of the following situations could have occurred?

    a. The company had a net income.
    b. The owner invested an additional amount.
    c. The owner made a withdrawal.
    d. All of the above.

37. When the Withdrawals account is closed:

    a. Owner's Capital will be debited
    b. Income Summary will be debited
    c. Income Summary will be credited
    d. None of the bove.

38. Endorsing a check:

    a. guarantees payment
    b. transfers the right to deposit or transfer cash
    c. cancels the transaction
    d. All of the above.

39. A blank endorsement on a check:

    a. can be further endorsed by someone else
    b. cannot be further endorsed by someone else
    c. is the safest type of endorsement
    d. permits only the original endorser to get the money

40. Scotch Services received a credit memorandum from the bank. During the bank reconciliation they should:

    a. increase their cash account on the company's books
    b. decrease their cash account on the company's books
    c. increase the ending cash balance on the bank statement
    d. decrease the ending cash balance on the bank statement

41. Checks that have been processed by the bank and are no longer negotiable are:

    a. outstanding checks
    b. canceled checks
    c. checks in process
    d. blank checks

42. Bank interest earned on a checking account would be shown on a bank reconciliation as:

    a. added to the balance per bank statement
    b. deducted from the balance per bank statement
    c. added to the balance per books
    d. deducted from the balance per books

43. Bank service charges would be shown on a bank reconciliation as:

    a. added to the balance per bank statement
    b. deducted from the balance per bank statement
    c. added to the balance per books
    d. deducted from the balance per books

44. If the owner of Que Legal Services forgot to deduct a withdrawal from the balance per books, what entry would be necessary?

    a. Debit Cash; credit Withdrawals
    b. Debit Withdrawals; credit Cash
    c. Debit Revenue; credit Cash
    d. Debit cash; credit Revenue

45. The law that governs overtime earnings is called:

    a. Federal Insurance Contribution Act
    b. Federal Wage and Hour Law
    c. Fair Labor Standards Act
    d. b and c only

46. If Sheila worked 38 hours, how many hours of overtime will Sheila earn?

    a. 0
    b. 1
    c. 9
    d. 5

47. A company can deem an employee as salaried:

    a. if they do not want to pay overtime wages
    b. if the employee meets the salaried laws under the Fair Labor Standards Act
    c. to make the payroll process easier
    d. if they have been employed at the company for 1 year or longer

48. FICA (OASDI and Medicare) and unemployment taxes are similar in that they:

    a. are paid by the employee
    b. have the same maximum taxable wage base
    c. are a specified percent of federal income tax withholdings
    d. are payroll tax expenses of the employer

49. When calculating the employer's payroll tax expense the clerk forgot about the wage base limits. This will cause:

    a. the expenses to be overstated
    b. the assets to be overstated
    c. the liabilities to be overstated
    d. a and c only

50. Workers' compensation provides insurance for employees who are:

a. unemployed due to an economic downturn
b. unemployed due to a plant closing
c. injured while on the job
d. not paid enough

51. A FUTA tax credit:

a. is given to employers who pay their state unemployment taxes on time
b. is usually in the amount of 5.4%
c. is applied against the 6.2% standard rate
d. All of the above.

52) Workers' Compensation Insurance is paid by the employer to protect:

a. the employee against job-related injury or death
b. himself/herself against job-related accidents or death
c. the employee against non job-related injury or death
d. himself/herself against non job-related accidents and death

53. The Wages and Salaries Expense account would be used to record:

a. net earnings for the office workers
b. a credit to the amount owed to the office workers
c. gross earnings for the office workers
d. a debit for the amount of net pay owed to the office workers

54. Payroll Cash is a(n):

a. revenue
b. liability
c. asset
d. expense

55. The debit amount to Payroll Tax Expense represents:

a. the employer's portion of the payroll taxes
b. the employees' portion of the payroll taxes
c. the employer's and employees' portion of the payroll taxes
d. None of the above.

56. What is debited if State Unemployment Tax Payable (SUTA) is credited?

   a. Payroll Tax Expense
   b. Cash
   c. Salaries Payable
   d. Salaries Expense

57. The following amounts are an expense to the company except:

   a. FICA-OASDI Payable
   b. FUTA Payable
   c. SUTA Payable
   d. All of the above.

58. A company must pay Form 941 taxes electronically if:

   a. they do business in multiple states
   b. they pay more than $200,000 in a given year
   c. they pay less than $200,000 in a given year
   d. The company would never have to pay electronically

59. The side that increases the balance of the Sales Discount account is:

   a. a credit
   b. a debit
   c. zero
   d. It does not have a normal balance.

60. A reduction given to customers for early payment is a:

   a. sales returns and allowance
   b. purchase discount
   c. sales discount
   d. purchase return

61. A characteristic of the account, Sales Discount, is:

   a. debit balance
   b. contra-revenue account
   c. records the cash discounts granted to customers
   d. All of the above.

62. Merchandise is:

   a. the same as inventory
   b. an asset
   c. the same as gross sales
   d. a and b only

63. Gross sales equals:

    a. net sales minus sales discount
    b. sales discount less net income
    c. the total of cash sales and credit sales
    d. net income plus gross profit

64. A sales discount correctly taken by the charge customer was debited to Sales at the time the entry was recorded. This error will cause the:

    a. net income for the period to be overstated
    b. net income for the period to be understated
    c. sales discount account to be understated
    d. sales account to be overstated

65. Payment for merchandise sold on credit for $100 subject to 1/10 n/30 was received within the discount period—$99 was received. This was recorded with a debit to Sales Discounts for $1, a debit to Cash for $99, and a credit to Accounts Receivable $100, but no mention was made of the subsidiary ledger account. This error will cause the:

    a. net income for the period to be overstated
    b. net income for the period to be understated
    c. control account to not agree with the subsidiary ledger
    d. assets to be overstated

66. When merchandise is bought for resale, which of the following accounts would be decreased?

    a. Store Equipment
    b. Purchases
    c. Cash
    d. Capital

67. Purchases Discount:

    a. is a contra-cost account
    b. has a normal debit balance
    c. decreases Net Income
    d. All of the above.

68. F.O.B. shipping point means:

    a. the buyer pays for the freight
    b. the seller pays for the freight
    c. the title passes at time of shipment
    d. a and c only

69. On November 30, Janoch's Dog Kennel purchased $600 of merchandise on account from the Ganster Company. The goods were shipped F.O.B. shipping point. The freight charge of $40 was paid by Ganster Company and added to the invoice. The amount to record in the Purchases account is:

    a. $600
    b. $640
    c. $560
    d. $550

70. The freight paid on goods purchased F.O.B. Shipping Point was not recorded. This error will cause:

    a. net income to be overstated
    b. net income to be understated
    c. net income to not be affected
    d. total liabilities to be overstated

71. A company purchased office supplies on account. This will be recorded with a:

    a. debit to Accounts Payable and a credit to Supplies
    b. debit to Supplies and a credit to Supplies Expense
    c. debit to Supplies and a credit to Accounts Payable
    d. credit to Supplies and a debit to Purchases

72. Hardware Restoration had net purchases of $50,000. If Purchases Returns and Allowances are $10,000 and Purchases Discounts are $1,500, what are gross purchases?

    a. $38,500
    b. $50,000
    c. $61,500
    d. $40,000

73. The freight paid on goods purchased F.O.B. shipping point was debited to the Freight Expense account. This error would cause:

    a. the period end assets to be understated
    b. the period end liabilities to be understated
    c. the period's net income to be overstated
    d. None of the above.

74. The return of merchandise was recorded as a debit to Accounts Payable and a credit to Purchases. This error would cause:

    a. the period end assets to be understated
    b. the period end liabilities to be understated
    c. the period's net income to be understated
    d. None of the above.

75. The weighted-average method:

  a. calculates an average unit cost by dividing the total cost of goods sold by the total units sold
  b. calculates an average unit cost by dividing the total cost of goods available for sale by the total units of goods available for sale
  c. calculates an average unit cost by adding the total cost of goods available for sale to the total units of goods available for sale
  d. None of the above.

76. One advantage of the LIFO method is that:

  a. an equal cost is assigned to each unit, so net income does not fluctuate as much as with other methods
  b. flow of goods and flow of costs are the same
  c. it matches current selling prices and current costs
  d. ending inventory is valued at very old costs

77. The principle of consistency states that:

  a. changes in accounting methods should occur from one fiscal period to the next
  b. a company cannot change from one inventory valuation method to another
  c. a company should switch from LIFO to FIFO every other period
  d. by using the same method, the financial statements are more meaningful

78. Goods that are consigned to another party:

  a. belong to the other party because title has passed
  b. belong to the company that has consigned them
  c. belong to the consignor
  d. b and c only

79. Chewy Candy has a beginning inventory of $1,000 with a retail value of $1,800. June purchases were $3,000, with a retail value of $4,700 and retail sales were $4,200. What is the June 30 estimated ending inventory at cost under the retail method?

  a. $351
  b. $949
  c. $4,161
  d. $1,416

80. The entry to record the disposal of a laptop computer with a cost of $2,500 and an accumulated depreciation of $1,500 would be:

  a. debit Depreciation Expense, $2,500; credit Equipment $2,500
  b. debit Accumulated Depreciation $1,500; debit Loss on Disposal of an Asset $1,000; credit Equipment $2,500
  c. debit Equipment $2,500; credit Accumulated Depreciation $2,500
  d. debit Cash $2,500; credit Equipment $2,500

81. If an asset is exchanged for a similar asset, a loss results:

    a. when the book value of the old asset is greater than what is received for the trade-in allowance
    b. when the book value of the old asset is less than what is received for the trade-in allowance
    c. when the accumulated depreciation equals the cost of the old asset
    d. None of the above.

82. If an asset is being sold or exchanged, the gain or loss is always computed by comparing the:

    a. market value and cost
    b. book value and salvage value
    c. market value and salvage value
    d. market value and book value

83. The process of writing off an intangible asset is:

    a. depreciation
    b. depletion
    c. amortization
    d. None of the above.

84. The exclusive right to produce and sell a manuscript is called a:

    a. copyright
    b. franchise
    c. patent
    d. goodwill

85. The allocation of the cost of a natural resource is:

    a. depreciation
    b. depletion
    c. amortization
    d. accrual

86. Salvage value was ignored when originally calculating the units-of-production depreciation. This error would cause:

    a. the period's net income to be overstated
    b. the period's net income to be understated
    c. the period end assets to be overstated
    d. None of the above.

87. The major parts of the Stockholders' Equity section of the balance sheet are:

    a. Paid-in Capital and Retained Earnings
    b. Stock and Retained Earnings
    c. Stock, Paid-in Capital, and Retained Earnings
    d. Authorized Stock and Preferred Stock

88. Stockholders' investment appears in:

    a. Paid-in Capital
    b. Owner's Equity
    c. Retained Earnings
    d. Cash

89. Authorized capital stock is shares:

    a. listed in the charter
    b. issued to the corporation's officers
    c. sold and in stockholder possession
    d. that pay dividends

90. One type of preferred stock that provides for the payment of preferred dividends that are in arrears is called:

    a. non-participating
    b. cumulative
    c. non-cumulative
    d. participating

91. Five hundred shares of $25 par common stock was exchanged for a piece of equipment with a fair market value of $13,500. The journal entry to record the transaction would include a credit to:

    a. Equipment for $12,500
    b. Debit to Common Stock for $12,500
    c. Credit to Paid-In Capital in Excess of Par-Common for $1,000
    d. Credit to Common Stock for $13,500

92. When stock is exchanged for non-cash assets:

    a. debit the asset for prior book value; credit Common Stock for cash received
    b. debit assets for market value; credit Common Stock for par value and, if needed, Paid-in Capital in Excess of Par
    c. debit assets for market value; credit Common Stock for market value
    d. debit assets for par value; credit Common Stock for par value

93. Organization costs are:

    a. part of the company's start-up and are listed as expenses
    b. listed as an intangible asset on the balance sheet
    c. a current asset on the balance sheet
    d. another expense on the income statement

94. Statements that are often used to compare similar businesses are called:

    a. comparative analysis
    b. vertical analysis
    c. horizontal analysis
    d. common-size statements

95. In a common-size income statement, selling expenses are 55%. This means that they are 55% of:

    a. net income
    b. net sales
    c. gross profit
    d. net profit

96. If Cara's Piano sales increased from $40,000 to $60,000 and its cost of goods sold increased from $20,000 to $40,000, then vertical analysis based on sales would show the following for cost of goods sold (rounded to the nearest percent):

    a. 40% and 20%
    b. 10% and 30%
    c. 50% and 67%
    d. 67% and 40%

97. The current ratio determines the ability of a company to:

    a. pay off all payables
    b. pay off current payables
    c. manage its ability to earn profit
    d. use its equity

98. If management wishes to evaluate the ability of a business to provide funding to cover the operating expenses, they could use the:

    a. rate of return on total assets
    b. rate of return on common stockholders' equity
    c. gross profit rate
    d. times interest earned

99. The debt in relation to the risk taken by stockholders is measured by:

    a. debt to stockholders' equity
    b. gross profit ratio
    c. rate of return to stockholders
    d. None of the above.

100. The lower the times interest earned ratio, the more likely:

    a. a default in payment will occur
    b. a business needs to borrow money
    c. a business will suffer a loss
    d. interest payments can be made