

Practice Test for Chapters 1 and 2 in Accounting 1

Disclaimer: The following is a practice test. It is only a representation of what the actual test COULD be like. It is NOT a guarantee that your actual test will have the same amount of questions, problems, nor breakdown between multiple choice questions and problems. I encourage you to attempt this practice test WITHOUT looking at the answers. Then check your answers. If one is having trouble with the practice test, it should be a clear signal that they do NOT yet fully understand the material. If one never achieves a satisfactory grade/result from taking the practice test, they should not expect to do any better on the actual test!

Multiple choice

- 1 The recording of financial transactions and events manually or electronically is called which of the following?
 - A) Bookkeeping
 - B) Budgeting
 - C) Auditing
 - D) Reporting
 - E) A and B

- 2 Which form of ownership burdens owners with the greatest risk of loss of their personal assets?
 - A) Limited partnership (LP)
 - B) Limited liability partnership (LLP)
 - C) Corporation
 - D) Sole proprietorship
 - E) None of the above

- 3 An accountant has the responsibility to coordinate the annual budget processes of the business corporation she works for. In which of the following areas of accounting is she most likely to be employed?
 - A) Managerial accounting.
 - B) Public accounting.
 - C) Financial accounting.
 - D) Not-for-Profit accounting.
 - E) Auditing.

- 4 If at the end of the accounting period the liabilities total \$18,000, and equity totals \$32,000, then what must be the total of the assets?
 - A) \$14,000
 - B) \$18,000
 - C) \$32,000
 - D) \$50,000
 - E) None of the above

- 5 Which of the following organizations is responsible for setting accounting rules and regulations?
- A) H&R Block
 - B) SEC
 - C) IRS
 - D) AICPA
 - E) FASB
- 6 The total assets and total liabilities of a firm are reported on which of the following?
- A) Income statement
 - B) Balance sheet
 - C) Statement of cash flows
 - D) Statement of owner's equity
 - E) None of the above
- 7 Withdrawals increase equity.
- A) True
 - B) False
- 8 When cash is received from a customer in payment for an account receivable, how are the elements of the accounting equation affected?
- A) Decrease assets (cash) and increase assets (accounts receivable)
 - B) Increase assets (cash) and decrease assets (accounts receivable)
 - C) Increase assets and increase liabilities
 - D) Increase assets and increase equity
 - E) None of the above
- 9 The investment of cash in the business will result in which of the following?
- A) An increase in cash and a decrease in equity
 - B) An increase in cash and an increase in equity
 - C) A decrease in cash and a decrease in liabilities
 - D) An increase in fees earned and an increase in equity
 - E) A increase in cash and a increase in liabilities
- 10 Keith Farfalle withdrew \$5,000 from his pet store, KM's Pets. Recording the withdrawal will result in which of the following changes to the components of the accounting equation?
- A) Increase in an asset and increase a liability
 - B) Decrease in an asset and decrease a liability
 - C) Increase in an asset and increase in equity
 - D) Decrease in an asset and decrease in equity
 - E) Increase in one asset and decrease in another asset

- 11 Assets total \$100,000 and liabilities total \$20,000. What is the equity of the business?
- A) \$80
 - B) \$800
 - C) \$8,000
 - D) \$80,000
 - E) None of the above
- 12 If during the accounting period the assets decreased by \$10,000, and equity increased by \$2,000, then how did liabilities change?
- A) Increased by \$12,000
 - B) Increased by \$8,000
 - C) Decreased by \$12,000
 - D) Decreased by \$8,000
 - E) Decreased by \$6,000
- 13 If during the accounting period the assets increased by \$14,000, and equity increased by \$4,000, then how did liabilities change?
- A) Increased by \$10,000
 - B) Increased by \$4,000
 - C) Decreased by \$4,000
 - D) Decreased by \$10,000
 - E) Decreased by \$18,000
- 14 Purchasing equipment on account will have what effect on the components of the accounting equation?
- A) Increase in equipment and a decrease in equity
 - B) Increase in equipment and an increase in equity
 - C) Increase in equipment and an increase in liabilities
 - D) Increase in equipment and a decrease in liabilities
 - E) None of the above
- 15 Services rendered for which cash has not yet been received will have what effect on the components of the accounting equation?
- A) Increase in accounts receivable and a decrease in equity
 - B) Increase in accounts receivable and an increase in equity
 - C) Decrease in accounts receivable and an increase in equity
 - D) Increase in fees earned and a decrease in equity
 - E) Decrease in accounts receivable and a decrease in equity

- 16 Beginning capital was \$10,000. Withdrawals were \$24,000. The owner made additional investments during year of \$60,000. The ending capital balance was \$90,000. What was the net income or net loss for the period?
- A) Net income, \$56,000
 - B) Net loss, \$44,000
 - C) Net income, \$44,000
 - D) Net income, \$30,000
 - E) None of the above
- 17 Total revenues were \$105,000, total expenses, except for wage expense were \$50,000, and net income was \$35,000. What was the amount of wage expense?
- A) \$15,000
 - B) \$20,000
 - C) \$55,000
 - D) \$70,000
 - E) Cannot be determined from information provided
- 18 Which of the following is not an equity account?
- A) Owner's Capital
 - B) Owner's Withdrawals
 - C) Revenue
 - D) Unearned Revenue
 - E) Expenses
- 19 An account titled Prepaid Rent would be classified as which of the following?
- A) Asset account
 - B) Liability account
 - C) Revenue account
 - D) Expense account
 - E) None of the above
- 20 A provider of health insurance received payment of \$24,000 cash from a customer for insurance coverage for the next two years. Recording the receipt of this cash will require which of the following?
- A) Withdrawals to be debited, an asset to be credited
 - B) A liability to be debited, an asset to be credited
 - C) An asset to be debited, capital to be credited
 - D) An asset to be debited, a liability to be credited
 - E) One asset to be debited, another asset to be credited

- 21** Phillip Atwood received \$5,000 after he completed excavation work for a local home builder. Recording the transaction requires which of the following?
- A) An asset to be debited, a liability to be credited
 - B) A liability to be debited, an asset to be credited
 - C) Withdrawal to be debited, an asset to be credited
 - D) An asset to be debited, revenue to be credited
 - E) An option other than these provided
- 22** Which of the following statements is true?
- A) Journalizing precedes posting
 - B) Revenue accounts are increased by debit entries
 - C) An account shows increase and decreases, but does not show the balance
 - D) Debit entries are entries involving the right-hand side on an account
 - E) Journalizing errors should be erased and a correct entry made

PROBLEMS

Problem #1

Professor Quark opens his own company, Electronic Tutorial Services, and completes the following transactions in June:

- 6/1 Quark invests \$12,000 into the business.
- 6/3 Purchased \$1,800 of equipment on account.
- 6/4 Paid \$360 premium for a two-year insurance policy.
- 6/6 Purchased office supplies for cash, \$300.
- 6/9 Purchased a new computer for \$7,500. Paid \$1,500 cash agreed to pay the remainder in 30 days.
- 6/10 Billed student Fiona Smith \$40 for tutorial services that were performed.
- 6/14 Paid for the equipment purchased on June 3rd.
- 6/25 Received \$35 cash from student Bert Bantrum for tutorial services performed.
- 6/30 Student billed on June 10 pays the amount due to Quark.
- 6/30 Quark withdraws \$500 for personal use.

Required: Prepare the journal entries to record these transactions.

Problem #2

Maria Sanchez started the Merry Mowers lawncare business. She began operations on May 1st and completed six transactions, which included her initial investment of \$8,000 cash. After these transactions, the ledger included the following accounts with normal balances.

Cash	\$	9,440
Office Supplies		500
Equipment		3,000
Accounts Payable		500
Notes Payable		2,000
Maria Sanchez, Capital		8,000
Maria Sanchez, Withdrawals		550
Lawncare Revenue		3,200
Gas and Oil Expense		210

Required: Prepare a trial balance for this business at the end of May.

Problem #3

Below are accounts listed for September 2004 for PC Partners, a sole proprietorship that installs/repairs home computers for customers. The business is owned by Ed Connor. The accounts are listed in alphabetical order. For the month of September 2004, prepare an income statement, statement of changes in owner's equity, and a balance sheet. Prepare them in proper form.

<u>ACCOUNT</u>	<u>BALANCE</u>
Accounts Payable	4,200
Accounts Receivable	8,480
Advertising expense	420
Capital (Ed Connor) at 08/31/04	56,000
Cash	35,460
Entertainment Expense	600
Equipment	15,700
Installation Revenue	15,600
Miscellaneous Revenue	800
Photocopying Expense	150
Rent Expense	1,300
Repair Revenue	8,650
Supplies	8,400
Truck	8,500
Unearned Revenue	760
Withdrawals (Connor)	7,000
TOTAL	172,020