1. The ACE Company has five plants nationwide that cost $100 million. The current market value of the plants is $500 million. The plants will be recorded and reported as assets at

a. $100 million.

b. $600 million.

c. $400 million.

d. $500 million. \_\_\_\_\_

2. A basic assumption of accounting that requires activities of an entity be kept separate from the activities of its owner is referred to as the

a. stand alone concept.

b. monetary unit assumption.

c. corporate form of ownership.

d. economic entity assumption. \_\_\_\_\_

3. A net loss will result during a time period when

a. liabilities exceed assets.

b. dividends exceed revenues.

c. expenses exceed revenues.

d. revenues exceed expenses. \_\_\_\_\_

4. As of December 31, 2008, Anders Company has assets of $35,000 and stockholders' equity of $20,000. What are the liabilities for Anders Company as of December 31, 2008?

a. $15,000

b. $10,000

c. $25,000

d. $20,000 \_\_\_\_\_

5. A credit is *not* the normal balance for which account listed below?

a. Common stock account

b. Revenue account

c. Liability account

d. Dividend account \_\_\_\_\_

**6.** An accountant has debited an asset account for $1,000 and credited a liability account for $500. What can be done to complete the recording of the transaction?

a. Nothing further must be done.

b. Debit an stockholders’ equity account for $500.

c. Debit another asset account for $500.

d. Credit a different asset account for $500. \_\_\_\_\_

7. Which of the following is *not* true of the terms debit and credit?

a. They can be abbreviated as Dr. and Cr.

b. They can be interpreted to mean increase and decrease.

c. They can be used to describe the balance of an account.

d. They can be interpreted to mean left and right. \_\_\_\_\_

8 . In the first month of operations, the total of the debit entries to the cash account amounted to $900 and the total of the credit entries to the cash account amounted to $500. The cash account has a(n)

a. $500 credit balance.

b. $800 debit balance.

c. $400 debit balance.

d. $400 credit balance. \_\_\_\_\_

9. On January 14, Franco Industries purchased supplies of $500 on account. The entry to record the purchase will include

a. a debit to Supplies and a credit to Accounts Payable.

b. a debit to Supplies Expense and a credit to Accounts Receivable.

c. a debit to Supplies and a credit to Cash.

d. a debit to Accounts Receivable and a credit to Supplies. \_\_\_\_\_

10. Management could determine the amounts due from customers by examining which ledger account?

a. Service Revenue

b. Accounts Payable

c. Accounts Receivable

d. Supplies \_\_\_\_\_

11 . A list of accounts and their balances at a given time is called a(n)

a. journal.

b. posting.

c. trial balance.

d. income statement. \_\_\_\_\_

12. Management usually desires \_\_\_\_\_\_\_\_ financial statements and the IRS requires all businesses to file \_\_\_\_\_\_\_\_\_ tax returns.

a. annual, annual

b. monthly, annual

c. quarterly, monthly

d. monthly, monthly \_\_\_\_\_

13. In a service-type business, revenue is considered earned

a. at the end of the month.

b. at the end of the year.

c. when the service is performed.

d. when cash is received. \_\_\_\_\_

14. Ken's Tune-up Shop follows the revenue recognition principle. Ken services a car on July 31. The customer picks up the vehicle on August 1 and mails the payment to Ken on August 5. Ken receives the check in the mail on August 6. When should Ken show that the revenue was earned?

a. July 31

b. August 1

c. August 5

d. August 6 \_\_\_\_\_

15. A furniture factory's employees work overtime to finish an order that is sold on February 28. The office sends a statement to the customer in early March and payment is received by mid-March. The overtime wages should be expensed in

a. February.

b. March.

c. the period when the workers receive their checks.

d. either in February or March depending on when the pay period ends. \_\_\_\_\_

16. A small company may be able to justify using a cash basis of accounting if they have

a. sales under $1,000,000.

b. no accountants on staff.

c. few receivables and payables.

d. all sales and purchases on account. \_\_\_\_\_

17. Which one of the following is *not* a justification for adjusting entries?

a. Adjusting entries are necessary to ensure that revenue recognition principles are followed.

b. Adjusting entries are necessary to ensure that the matching principle is followed.

c. Adjusting entries are necessary to enable financial statements to be in conformity with GAAP.

d. Adjusting entries are necessary to bring the general ledger accounts in line with the budget. \_\_\_\_\_

18. If a resource has been consumed but a bill has *not* been received at the end of the accounting period, then

a. an expense should be recorded when the bill is received.

b. an expense should be recorded when the cash is paid out.

c. an adjusting entry should be made recognizing the expense.

d. it is optional whether to record the expense before the bill is received. \_\_\_\_\_

19. Quirk Company purchased office supplies costing $6,000 and debited Office Supplies for the full amount. At the end of the accounting period, a physical count of office supplies revealed $2,400 still on hand. The appropriate adjusting journal entry to be made at the end of the period would be

a. Debit Office Supplies Expense, $2,400; Credit Office Supplies, $2,400.

b. Debit Office Supplies, $3,600; Credit Office Supplies Expense, $3,600.

c. Debit Office Supplies Expense, $3,600; Credit Office Supplies, $3,600.

d. Debit Office Supplies, $2,400; Credit Office Supplies Expense, $2,400. \_\_\_\_\_

20. Closing entries are made

a. in order to terminate the business as an operating entity.

b. so that all assets, liabilities, and Stockholders' equity accounts will have zero balances when the next accounting period starts.

c. in order to transfer net income (or loss) and dividends to the retained earnings account.

d. so that financial statements can be prepared. \_\_\_\_\_

21. The relationship between current assets and current liabilities is important in evaluating a company's

a. profitability.

b. liquidity.

c. market value.

d. accounting cycle. \_\_\_\_\_

22. An objective of financial reporting is to provide information that is mainly useful to

a. governmental taxing bodies.

b. employees and labor unions.

c. investors and creditors.

d. internal and external auditors. \_\_\_\_\_

23. Which of the following statements is *not* true?

a. Comparability means using the same accounting principles from year to year within a company.

b. Reliability is the quality of information that gives assurance that it is free of error or bias.

c. Relevant accounting information must be capable of making a difference in the decision.

d. The FASB concluded that the overriding criterion by which accounting choices can be judged is decision usefulness. \_\_\_\_\_

24. The going concern assumption assumes that the business

a. will be liquidated in the near future.

b. will be purchased by another business.

c. is in a growth industry.

d. will continue in operation long enough to carry out its existing commitments. \_\_\_\_\_

25. The revenue recognition principle

a. states that revenue should be recognized in the period when received.

b. states that expense recognition is tied to revenue recognition.

c. requires that revenue be recognized in the accounting period when it is earned.

d. requires that events making a difference to financial statement users be clearly disclosed. \_\_\_\_\_

26. Which of the following is **not** a characteristic of the cost principle?

a. Reliability

b. Subjectivity

c. Objectivity

d. Verifiability \_\_\_\_\_