We are Econ3a, Inc. We purchase stuff and sell it for a profit.

Here is our trial balance at 1/1/2008:

<table>
<thead>
<tr>
<th>Account Title</th>
<th>DR/ (CR)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash</td>
<td>80,000</td>
</tr>
<tr>
<td>Accounts receivable</td>
<td>25,000</td>
</tr>
<tr>
<td>Inventory</td>
<td>20,000</td>
</tr>
<tr>
<td>Prepaid expenses</td>
<td>500</td>
</tr>
<tr>
<td>Fixed assets</td>
<td>100,000</td>
</tr>
<tr>
<td>Accounts payable</td>
<td>(22,000)</td>
</tr>
<tr>
<td>Accrued payroll</td>
<td>-</td>
</tr>
<tr>
<td>Debt</td>
<td>(125,000)</td>
</tr>
<tr>
<td>Common stock</td>
<td>(3,000)</td>
</tr>
<tr>
<td>Retained earnings</td>
<td>(75,500)</td>
</tr>
</tbody>
</table>

We had the following activity during January:

1. Made no new bank borrowings, but the debt already on the trial balance above matures at $1,000/month.
2. Purchased $50,000 of inventory, on credit.
3. Sold goods for $70,000 on credit which cost $30,000.
4. Made a $1,300 payment on the debt ($300 for interest and $1,000 for principle).
5. Purchased inventory for $10,000 cash (not on account).
6. Collected $42,000 from customers.
7. Paid $52,000 to vendors against outstanding payables.
8. On the last day of the month, paid $24,000 for consulting services for which we have received the benefit.
9. Paid $12,000 for payroll.
10. Noticed that there was $1,000 of payroll for the last couple days of the month which has not been paid yet, but for which we have received the benefit from our employees.
11. Paid $2,000 for advertising to be provided at a later date.

Based on all of the above:

i. For each number (1-11) above, record the journal entry or state no entry if there is none.

II. Track activity in whatever manner you prefer, and show the balance sheet as of the end of the month and the income statement for the month.

Note: All of the balance sheet account titles you may need are listed in the above trial balance.

For the income statement, choose from the following account titles:
- Revenues
- Salaries expense
- Advertising expense
- Cost of Goods Sold (or COGS)
- Interest expense
- Consultant expenses
- Rent expense
<table>
<thead>
<tr>
<th>ACCOUNT</th>
<th>DEBIT</th>
<th>CREDIT</th>
</tr>
</thead>
<tbody>
<tr>
<td>(1) NO ENTRY</td>
<td></td>
<td></td>
</tr>
<tr>
<td>(2) Inventory</td>
<td>50,000</td>
<td>50,000</td>
</tr>
<tr>
<td>Accounts payable</td>
<td></td>
<td></td>
</tr>
<tr>
<td>(3) Accounts receivable</td>
<td>70,000</td>
<td>70,000</td>
</tr>
<tr>
<td>Sales</td>
<td></td>
<td></td>
</tr>
<tr>
<td>(3a) COGS</td>
<td>30,000</td>
<td>30,000</td>
</tr>
<tr>
<td>Inventory</td>
<td></td>
<td></td>
</tr>
<tr>
<td>(4) Debt</td>
<td>1,000</td>
<td>1,300</td>
</tr>
<tr>
<td>Interest expense</td>
<td>300</td>
<td></td>
</tr>
<tr>
<td>Cash</td>
<td></td>
<td></td>
</tr>
<tr>
<td>(5) Inventory</td>
<td>10,000</td>
<td>10,000</td>
</tr>
<tr>
<td>Cash</td>
<td></td>
<td></td>
</tr>
<tr>
<td>(6) Cash</td>
<td>42,000</td>
<td>42,000</td>
</tr>
<tr>
<td>Accounts receivable</td>
<td></td>
<td></td>
</tr>
<tr>
<td>(7) Accounts payable</td>
<td>52,000</td>
<td>52,000</td>
</tr>
<tr>
<td>Cash</td>
<td></td>
<td></td>
</tr>
<tr>
<td>(8) Consultant expenses</td>
<td>24,000</td>
<td>24,000</td>
</tr>
<tr>
<td>Cash</td>
<td></td>
<td></td>
</tr>
<tr>
<td>(9) Salaries expense</td>
<td>12,000</td>
<td>12,000</td>
</tr>
<tr>
<td>Cash</td>
<td></td>
<td></td>
</tr>
<tr>
<td>(10) Salaries expense</td>
<td>1,000</td>
<td>1,000</td>
</tr>
<tr>
<td>Accrued payroll</td>
<td></td>
<td></td>
</tr>
<tr>
<td>(11) Prepaid expenses</td>
<td>2,000</td>
<td>2,000</td>
</tr>
<tr>
<td>Cash</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Econ 3a, Inc.</strong></td>
<td></td>
<td><strong>Econ 3a, Inc.</strong></td>
</tr>
<tr>
<td>-------------------</td>
<td>-------------------</td>
<td>-------------------</td>
</tr>
<tr>
<td><strong>Balance Sheet</strong></td>
<td></td>
<td><strong>Income Statement</strong></td>
</tr>
<tr>
<td><strong>As of January 31, 2008</strong></td>
<td></td>
<td><strong>For the month ended January 31, 2008</strong></td>
</tr>
<tr>
<td><strong>Assets</strong></td>
<td></td>
<td><strong>Sales</strong></td>
</tr>
<tr>
<td><strong>Current assets</strong></td>
<td></td>
<td><strong>COGS</strong></td>
</tr>
<tr>
<td>Cash</td>
<td>20,700</td>
<td>Gross Profit</td>
</tr>
<tr>
<td>Accounts receivable</td>
<td>53,000</td>
<td></td>
</tr>
<tr>
<td>Inventory</td>
<td>50,000</td>
<td>Interest expense</td>
</tr>
<tr>
<td>Prepaid expenses</td>
<td>2,500</td>
<td>Consultant expenses</td>
</tr>
<tr>
<td><strong>Total Current assets</strong></td>
<td>126,200</td>
<td>Salaries expense</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Advertising expense</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Operating expenses</td>
</tr>
<tr>
<td><strong>Fixed assets</strong></td>
<td>100,000</td>
<td></td>
</tr>
<tr>
<td><strong>Total Assets</strong></td>
<td>226,200</td>
<td>Net income</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Liabilities &amp; Equity</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Current liabilities</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Current portion of notes payable</td>
<td>12,000</td>
<td></td>
</tr>
<tr>
<td>Accounts payable</td>
<td>20,000</td>
<td></td>
</tr>
<tr>
<td>Accrued payroll</td>
<td>1,000</td>
<td></td>
</tr>
<tr>
<td><strong>Total current liabilities</strong></td>
<td>33,000</td>
<td></td>
</tr>
<tr>
<td>Notes payable, exc. Curr. Portion</td>
<td>112,000</td>
<td></td>
</tr>
<tr>
<td><strong>Equity</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Common stock</td>
<td>3,000</td>
<td></td>
</tr>
<tr>
<td>Retained earnings</td>
<td>78,200</td>
<td></td>
</tr>
<tr>
<td><strong>Total Liabilities &amp; Equity</strong></td>
<td>226,200</td>
<td></td>
</tr>
</tbody>
</table>
1. Which of the following statements is not true
   A) Accounting reports activity which has already taken place.
   B) Accounting reports activity which will take place.
   C) Accounting provides users with a mechanism for developing expectations about a company.
   D) Accounting is process which provides information useful for various decision makers.

2. We use a historical cost basis of accounting under GAAP. Which of the following is not a reason supporting this?
   A) Conservatism     B) Comparability     C) Consistency     D) Usefulness

3. Accounting is the process of doing which of the following relative to economic information:
   A) Measuring     B) Communicating     C) Identifying     D) All of these

4. Every transaction in the history of a company is reflected in the ending balance of the accounts on which statement?
   A) Statement of cash flows
   B) Income statement
   C) Statement of independence from taxation without representation
   D) Balance sheet

5. Which group ultimately controls a company, and through what activity is this accomplished?
   A) Management through day to day decision-making
   B) The shareholders through voting
   C) The shareholders through day to day decision-making
   D) The Board of Directors through appointment of management
6. Who is the author of the following quote: "what we learn to do, we learn by doing"
   A) Armstrong    B) Aristotle    C) Anderson    D) Bell

7. What body is primarily responsible for the statements which comprise GAAP?
   A) PCAOB    B) AICPA    C) FASB    D) SEC

8. Which statement is true with respect to compliance with GAAP.
   A) All companies incorporated in the United States of America must comply with GAAP
   B) No company must comply with GAAP
   C) A company need only comply with GAAP if they are a public company governed by the SEC
   D) A company must comply with GAAP only if they are required to by a user of their financial statements, such as public companies

9. Current assets and current liabilities will be satisfied within:
   A) One year or the operating cycle, whichever is shorter
   B) One year
   C) The operating cycle
   D) One year or the operating cycle, whichever is longer

10. When collection is made on Accounts Receivable,
    A) total assets will increase.  C) stockholders equity will increase.
    B) total assets will decrease.  D) total assets will remain the same.

11. The right to receive money in the future is called a(n)
    A) revenue.  B) account payable.  C) account receivable.  D) liability.

12. Current assets divided by current liabilities is known as the
    A) profit margin.  B) capital structure.  C) current ratio.  D) working capital.

13. If total liabilities increased by $5,000, then
    A) assets and stockholders' equity each increased by $2,500.
    B) assets must have decreased by $5,000.
    C) stockholders' equity must have increased by $5,000.
    D) assets must have increased by $5,000, or stockholders' equity must have decreased by $5,000.
14. These are selected account balances on December 31, 2007.

<table>
<thead>
<tr>
<th>Account</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Land (location of the corporation's office building)</td>
<td>$100,000</td>
</tr>
<tr>
<td>Land (held for future use)</td>
<td>$150,000</td>
</tr>
<tr>
<td>Corporate Office Building</td>
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</tr>
<tr>
<td>Inventory</td>
<td>$200,000</td>
</tr>
<tr>
<td>Equipment</td>
<td>$450,000</td>
</tr>
<tr>
<td>Office Furniture</td>
<td>$100,000</td>
</tr>
<tr>
<td>Accumulated Depreciation</td>
<td>$300,000</td>
</tr>
</tbody>
</table>

What is the total amount of property, plant, and equipment that will appear on the balance sheet?
A) $950,000  B) $1,300,000  C) $1,100,000  D) $1,600,000

15. The purchase of an asset on credit
A) leaves total assets unchanged.
B) decreases assets and increases liabilities.
C) increases assets and stockholders' equity.
D) increases assets and liabilities.

16. Working capital is calculated by taking
A) current assets divided by current liabilities.
B) current assets times current liabilities.
C) current assets minus current liabilities.
D) current assets plus current liabilities.

17. The group of users of accounting information charged with achieving the goals of the business is its
A) creditors.  B) managers.  C) auditors.  D) investors.

18. Which of the following is a measure of liquidity?
A) Profit margin  C) Working capital
B) Debt to equity ratio  D) Earnings per share

19. The relationship between current assets and current liabilities is important in evaluating a company's
A) liquidity.  B) market value.  C) solvency.  D) profitability.

20. Liondale Corporation had beginning retained earnings of $2,292,000 and ending retained earnings of $2,499,000. During the year they issued common stock totaling $141,000 and had no dividends. What was their net income for the year?
A) $273,000  B) $207,000  C) $ 66,000  D) $348,000

21. Which of the following is **not** considered an asset?
A) Inventory  B) Equipment  C) Dividends  D) Accounts receivable
22. Office equipment is classified on the balance sheet as
   A) property, plant, and equipment. C) a current asset.
   B) a long-term investment. D) an intangible asset.

23. If a company collects $100 from an open account receivable, the impact to net income should be:
   A) Increase for an amount less than $100 C) No impact
   B) Increase $100 D) Decrease $100

24. Which of the following would not be classified as a long-term liability?
   A) Mortgage payable C) Lease liabilities
   B) Current maturities of long-term debt D) Bonds payable

25. If services are rendered for cash, then
   A) stockholders' equity will decrease. C) liabilities will increase.
   B) liabilities will decrease. D) assets will increase.

26. Define the following terms: Asset, Liability and Equity

27. Under GAAP, state when we record a revenue and when we record an expense.

28. State the accounting equation in the space provided.

29. For each of the following items, and in the space provided, state what impact the item should have upon equity (increase/ decrease/ no impact):
   Revenue:
   Insurance expense
   Collect an account receivable
   Pay an account payable
   Dividends __________________.
   Net income
   Net loss
Answer Key

1. B
2. D
3. D
4. D
5. B
6. B
7. C
8. D
9. D
10. D
11. C
12. C
13. D
14. A
15. D
16. C
17. B
18. C
19. A
20. B
21. C
22. A
23. C
24. B
25. D

26. Asset: Probable Future Economic Benefit as a result of a past transaction
   Liability: Probable Future Economic Sacrifice as a result of a past transaction
   Equity: Residual Interest of the owners OR ASSETS MINUS LIABILITIES

27. REVENUE: When earned
   EXPENSE: When incurred OR when the associated benefit has been derived OR matching (all acceptable answers for credit)

28. Assets = Liabilities + Equity
   OR Equity=Assets - Liabilities

29.
   Revenue: increase
   Insurance expense decrease
   Collect an account receivable no impact
   Pay an account payable no impact
   Dividends decrease
   Net income increase
   Net loss decrease
1. We use a historical cost basis of accounting under GAAP. Which of the following is not a reason supporting this?
   A) Consistency  B) Usefulness  C) Conservatism  D) Comparability

2. Accounting is the process of doing which of the following relative to economic information:
   A) Measuring  B) Communicating  C) Identifying  D) All of these

3. Which of the following statements is not true
   A) Accounting reports activity which has already taken place.
   B) Accounting is process which provides information useful for various decision makers.
   C) Accounting reports activity which will take place.
   D) Accounting provides users with a mechanism for developing expectations about a company.

4. Every transaction in the history of a company is reflected in the ending balance of the accounts on which statement?
   A) Balance sheet
   B) Statement of cash flows
   C) Statement of independence from taxation without representation
   D) Income statement

5. Who is the author of the following quote: "what we learn to do, we learn by doing"
   A) Aristotle  B) Bell  C) Anderson  D) Armstrong

6. What body is primarily responsible for the statements which comprise GAAP?
   A) PCAOB  B) AICPA  C) FASB  D) SEC
7. Which group ultimately controls a company, and through what activity is this accomplished?  
A) The shareholders through day to day decision-making  
B) The Board of Directors through appointment of management  
C) Management through day to day decision-making  
D) The shareholders through voting  

8. Current assets and current liabilities will be satisfied within:  
A) One year or the operating cycle, whichever is longer  
B) One year  
C) One year or the operating cycle, whichever is shorter  
D) The operating cycle  

9. Which statement is true with respect to compliance with GAAP.  
A) A company need only comply with GAAP if they are a public company governed by the SEC  
B) All companies incorporated in the United States of America must comply with GAAP  
C) No company must comply with GAAP  
D) A company must comply with GAAP only if they are required to by a user of their financial statements, such as public companies  

10. If a company collects $100 from an open account receivable, the impact to net income should be:  
A) Decrease $100  
B) No impact  
C) Increase $100  
D) Increase for an amount less than $100  

11. These are selected account balances on December 31, 2007.  

<table>
<thead>
<tr>
<th>Account</th>
<th>Balance</th>
</tr>
</thead>
<tbody>
<tr>
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</tr>
<tr>
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</tr>
<tr>
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</tr>
<tr>
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</tr>
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<td>300,000</td>
</tr>
</tbody>
</table>

What is the total amount of property, plant, and equipment that will appear on the balance sheet?  
A) $1,100,000  B) $950,000  C) $1,300,000  D) $1,600,000  

12. The group of users of accounting information charged with achieving the goals of the business is its  
A) creditors.  B) managers.  C) auditors.  
D) investors.
13. When collection is made on Accounts Receivable,  
   A) stockholders equity will increase.  C) total assets will remain the same.  
   B) total assets will decrease.  D) total assets will increase. 

14. Which of the following would **not** be classified as a long-term liability? 
   A) Mortgage payable  C) Bonds payable  
   B) Lease liabilities  D) Current maturities of long-term debt 

15. Working capital is calculated by taking  
   A) current assets divided by current liabilities.  
   B) current assets plus current liabilities.  
   C) current assets times current liabilities.  
   D) current assets minus current liabilities. 

16. Which of the following is a measure of liquidity?  
   A) Debt to equity ratio  C) Working capital  
   B) Earnings per share  D) Profit margin  

17. If services are rendered for cash, then  
   A) stockholders' equity will decrease.  C) liabilities will decrease.  
   B) assets will increase.  D) liabilities will increase.  

18. Liondale Corporation had beginning retained earnings of $2,292,000 and ending 
    retained earnings of $2,499,000. During the year they issued common stock totaling 
    $141,000 and had no dividends. What was their net income for the year?  
   A) $66,000  B) $348,000  C) $273,000  D) $207,000  

19. Current assets divided by current liabilities is known as the  
   A) profit margin.  B) working capital.  C) capital structure.  D) current ratio.  

20. The relationship between current assets and current liabilities is important in evaluating 
    a company's  
   A) market value.  B) solvency.  C) liquidity.  D) profitability. 

21. If total liabilities increased by $5,000, then  
   A) stockholders' equity must have increased by $5,000.  
   B) assets must have increased by $5,000, or stockholders' equity must have decreased 
      by $5,000.  
   C) assets and stockholders' equity each increased by $2,500.  
   D) assets must have decreased by $5,000.  

22. Which of the following is **not** considered an asset?  
   A) Dividends  B) Inventory  C) Equipment  D) Accounts receivable  

Version 2  Page 3
23. The right to receive money in the future is called a(n)  
A) account receivable.  B) liability.  C) revenue.  D) account payable.

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26. State the accounting equation in the space provided.

27. Define the following terms: Asset, Liability and Equity

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29. For each of the following items, and in the space provided, state what impact the item should have upon equity (increase/ decrease/ no impact):
   Revenue:  
   Insurance expense  
   Collect an account receivable  
   Pay an account payable  
   Dividends ________________.
   Net income  
   Net loss
Answer Key

1. B
2. D
3. C
4. A
5. A
6. C
7. D
8. A
9. D
10. B
11. B
12. B
13. C
14. D
15. D
16. C
17. B
18. D
19. D
20. C
21. B
22. A
23. A
24. A
25. C
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    Collect an account receivable no impact
    Pay an account payable no impact
    Dividends decrease
    Net income increase
    Net loss decrease
INSTRUCTIONS: THERE ARE SEVERAL VERSIONS OF THE EXAM, PLEASE WRITE YOUR EXAM VERSION # ON YOUR SCANTRON.

THE FIRST 25 QUESTIONS ARE MULTIPLE CHOICE, PLEASE ANSWER ON YOUR GREEN SCANTRON.

THE REMAINING QUESTIONS SHOULD ALL BE ANSWERED IN THE SPACE PROVIDED.

1. Which of the following statements is not true
   A) Accounting provides users with a mechanism for developing expectations about a company.
   B) Accounting reports activity which has already taken place.
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    B) No impact    D) Increase for an amount less than $100
14. These are selected account balances on December 31, 2007.

Land (location of the corporation's office building) $100,000
Land (held for future use) 150,000
Corporate Office Building 600,000
Inventory 200,000
Equipment 450,000
Office Furniture 100,000
Accumulated Depreciation 300,000

What is the total amount of property, plant, and equipment that will appear on the
balance sheet?
A) $1,100,000    B) $950,000    C) $1,300,000    D) $1,600,000

15. The purchase of an asset on credit
A) leaves total assets unchanged.
B) decreases assets and increases liabilities.
C) increases assets and stockholders' equity.
D) increases assets and liabilities.

16. When collection is made on Accounts Receivable,
A) stockholders equity will increase.  C) total assets will decrease.
B) total assets will increase.       D) total assets will remain the same.

17. The group of users of accounting information charged with achieving the goals of the
business is its
A) creditors.  B) managers.  C) auditors.  D) investors.

18. The right to receive money in the future is called a(n)
A) liability.  B) revenue.  C) account receivable.  D) account payable.

19. Office equipment is classified on the balance sheet as
A) property, plant, and equipment.  C) a current asset.
B) a long-term investment.        D) an intangible asset.

20. Which of the following is a measure of liquidity?
A) Profit margin                  C) Working capital
B) Debt to equity ratio          D) Earnings per share

21. The relationship between current assets and current liabilities is important in evaluating
a company's
A) liquidity.  B) market value.  C) solvency.  D) profitability.
22. Working capital is calculated by taking
   A) current assets minus current liabilities.
   B) current assets times current liabilities.
   C) current assets plus current liabilities.
   D) current assets divided by current liabilities.

23. If total liabilities increased by $5,000, then
   A) assets and stockholders' equity each increased by $2,500.
   B) assets must have decreased by $5,000.
   C) stockholders' equity must have increased by $5,000.
   D) assets must have increased by $5,000, or stockholders' equity must have decreased by $5,000.

24. Which of the following would not be classified as a long-term liability?
   A) Mortgage payable
   B) Current maturities of long-term debt
   C) Lease liabilities
   D) Bonds payable

25. If services are rendered for cash, then
   A) liabilities will increase.
   B) stockholders' equity will decrease.
   C) liabilities will decrease.
   D) assets will increase.

26. Under GAAP, state when we record a revenue and when we record an expense.

27. State the accounting equation in the space provided.

28. Define the following terms: Asset, Liability and Equity

29. For each of the following items, and in the space provided, state what impact the item should have upon equity (increase/ decrease/ no impact):
   Revenue:
   Insurance expense
   Collect an account receivable
   Pay an account payable
   Dividends ________________.
   Net income
   Net loss
Answer Key

1. C
2. B
3. D
4. D
5. A
6. A
7. B
8. D
9. D
10. D
11. D
12. C
13. B
14. B
15. D
16. D
17. B
18. C
19. A
20. C
21. A
22. A
23. D
24. B
25. D
26. REVENUE: When earned
   EXPENSE: When incurred OR when the associated benefit has been derived OR matching (all acceptable answers for credit)
27. Assets = Liabilities + Equity
   OR Equity=Assets - Liabilities
28. Asset: Probable Future Economic Benefit as a result of a past transaction
   Liability: Probable Future Economic Sacrifice as a result of a past transaction
   Equity: Residual Interest of the owners OR ASSETS MINUS LIABILITIES
29. Revenue: increase
   Insurance expense decrease
   Collect an account receivable no impact
   Pay an account payable no impact
   Dividends decrease
   Net income increase
   Net loss decrease
1. We use a historical cost basis of accounting under GAAP. Which of the following is not a reason supporting this?
   A) Conservatism    B) Usefulness    C) Comparability    D) Consistency

2. Accounting is the process of doing which of the following relative to economic information:
   A) Communicating    B) Identifying    C) Measuring    D) All of these

3. Which of the following statements is not true
   A) Accounting reports activity which will take place.
   B) Accounting is process which provides information useful for various decision makers.
   C) Accounting provides users with a mechanism for developing expectations about a company.
   D) Accounting reports activity which has already taken place.

4. Every transaction in the history of a company is reflected in the ending balance of the accounts on which statement?
   A) Statement of cash flows
   B) Income statement
   C) Statement of independence from taxation without representation
   D) Balance sheet

5. Who is the author of the following quote: "what we learn to do, we learn by doing"
   A) Anderson    B) Aristotle    C) Bell    D) Armstrong

6. What body is primarily responsible for the statements which comprise GAAP?
   A) PCAOB    B) FASB    C) SEC    D) AICPA
7. Which group ultimately controls a company, and through what activity is this accomplished?
   A) Management through day to day decision-making
   B) The shareholders through day to day decision-making
   C) The Board of Directors through appointment of management
   D) The shareholders through voting

8. Current assets and current liabilities will be satisfied within:
   A) The operating cycle
   B) One year or the operating cycle, whichever is longer
   C) One year or the operating cycle, whichever is shorter
   D) One year

9. Which statement is true with respect to compliance with GAAP.
   A) All companies incorporated in the United States of America must comply with GAAP
   B) A company must comply with GAAP only if they are required to by a user of their financial statements, such as public companies
   C) No company must comply with GAAP
   D) A company need only comply with GAAP if they are a public company governed by the SEC

10. The right to receive money in the future is called a(n)
    A) liability.  B) account payable.  C) revenue.  D) account receivable.

11. These are selected account balances on December 31, 2007.
    Land (location of the corporation's office building) $100,000
    Land (held for future use) 150,000
    Corporate Office Building 600,000
    Inventory 200,000
    Equipment 450,000
    Office Furniture 100,000
    Accumulated Depreciation 300,000

    What is the total amount of property, plant, and equipment that will appear on the balance sheet?
    A) $1,600,000  B) $950,000  C) $1,100,000  D) $1,300,000

12. The relationship between current assets and current liabilities is important in evaluating a company's
    A) liquidity.  B) solvency.  C) profitability.  D) market value.
13. If services are rendered for cash, then
   A) stockholders' equity will decrease.  C) liabilities will decrease.
   B) assets will increase.              D) liabilities will increase.

14. Working capital is calculated by taking
   A) current assets times current liabilities.
   B) current assets divided by current liabilities.
   C) current assets plus current liabilities.
   D) current assets minus current liabilities.

15. Office equipment is classified on the balance sheet as
   A) a long-term investment. C) property, plant, and equipment.
   B) a current asset.          D) an intangible asset.

16. If a company collects $100 from an open account receivable, the impact to net income
    should be:
    A) Increase for an amount less than $100  C) Decrease $100
    B) No impact                           D) Increase $100

17. Which of the following would **not** be classified as a long-term liability?
    A) Mortgage payable               C) Bonds payable
    B) Lease liabilities             D) Current maturities of long-term debt

18. The group of users of accounting information charged with achieving the goals of the
    business is its
    A) creditors.  B) managers.  C) auditors.  D) investors.

19. When collection is made on Accounts Receivable,
    A) total assets will increase.       C) stockholders equity will increase.
    B) total assets will decrease.      D) total assets will remain the same.

20. Which of the following is a measure of liquidity?
    A) Debt to equity ratio              C) Profit margin
    B) Working capital                  D) Earnings per share

21. Liondale Corporation had beginning retained earnings of $2,292,000 and ending
    retained earnings of $2,499,000. During the year they issued common stock totaling
    $141,000 and had no dividends. What was their net income for the year?
    A) $273,000  B) $207,000  C) $ 66,000  D) $348,000

22. Which of the following is **not** considered an asset?
    A) Inventory  B) Accounts receivable  C) Equipment  D) Dividends
23. The purchase of an asset on credit  
   A) increases assets and liabilities.  
   B) decreases assets and increases liabilities.  
   C) leaves total assets unchanged.  
   D) increases assets and stockholders' equity.

24. If total liabilities increased by $5,000, then  
   A) assets must have increased by $5,000, or stockholders' equity must have decreased by $5,000.  
   B) assets and stockholders' equity each increased by $2,500.  
   C) stockholders' equity must have increased by $5,000.  
   D) assets must have decreased by $5,000.

25. Current assets divided by current liabilities is known as the  
   A) capital structure.  
   B) working capital.  
   C) current ratio.  
   D) profit margin.

26. State the accounting equation in the space provided.

27. Define the following terms: Asset, Liability and Equity

28. Under GAAP, state when we record a revenue and when we record an expense.

29. For each of the following items, and in the space provided, state what impact the item should have upon equity (increase/ decrease/ no impact):  
   Revenue:  
   Insurance expense  
   Collect an account receivable  
   Pay an account payable  
   Dividends _______________.  
   Net income  
   Net loss
Answer Key

1. B
2. D
3. A
4. D
5. B
6. B
7. D
8. B
9. B
10. D
11. B
12. A
13. B
14. D
15. C
16. B
17. D
18. B
19. D
20. B
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22. D
23. A
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26. Assets = Liabilities + Equity

OR Equity=Assets - Liabilities

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   Equity: Residual Interest of the owners OR ASSETS MINUS LIABILITIES

28. REVENUE: When earned
   EXPENSE: When incurred OR when the associated benefit has been derived OR matching (all acceptable answers for credit)

29. Revenue: increase
    Insurance expense decrease
    Collect an account receivable no impact
    Pay an account payable no impact
    Dividends decrease
    Net income increase
    Net loss decrease
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31. COMPLETE YOUR BALANCE SHEET & INCOME STATEMENT IN THE SPACE PROVIDED.