

Financial accounting practice exam



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An advantage of the corporate form of business is that: A. It has limited life. B. Its owner's personal resources are at stake. C. Its ownership is easily transferable via the sale of shares of stock. D. It is simple to establish. E. It has double taxation. 2. External users want answers to all of the following questions except: A. Is the company earning satisfactory income? B. Will the company be able to pay its debts as they come due? C. Will the company be able to afford employee pay raises this year? D. How does the company compare in profitability with competitors? 3. The best definition of assets is the: A.

Cash owned by the company. B. Collections of resources belonging to the company and the claims to those resources. C. Owners' investment in the business. D. Resources belonging to a company that have future benefit to the company. 4. Retained earnings at the end of the period is equal to: A. Beginning retained earnings plus net income minus liabilities. B. Beginning retained earnings plus net income minus dividends. C. Net income. D. Assets plus liabilities. E. Assets minus liabilities. 5. Assume working capital is \$45,000 and the current ratio is 4: 1. What are current liabilities? A. \$ 10, 000 B. \$ 11, 250 C. \$ 15, 000

D. \$ 17, 400 E. \$ 180, 000 6. Wolfpack, Inc. collected \$6, 250 on account. The effect of the transaction on the accounting equation is to: A. Increase revenue and decrease expenses. B. Have no effect on total assets. C. Decrease assets and decrease liabilities. D. Increase assets and increase stockholder's equity. E. Both A and B. 7. The retained earnings account has a debit balance of \$2, 400 before closing entries are made. If total revenues for the year are \$57, 200, total expenses are \$36, 800, and dividends are \$8,

000, what is the ending balance in the retained earnings account after all closing entries have been made?

A. \$23, 200 B. \$10, 000 C. \$14, 200 D. \$17, 600 E. \$ 9, 800 8. If working capital is \$72, 000 and the current ratio is 2. 5: 1, what are the effects of receiving cash by borrowing for 60 days on the last day of the year? Working Capital Current Ratio A. Increase No change B. Decrease No change C. Decrease Increase D. No change Decrease E. No change Increase 9. The usual sequence of steps in the transaction recording process is: A. Journalize, analyze, post to the ledger. B. Analyze, journalize, post to the ledger. C. Journalize, post to the ledger, analyze. D. Post to the ledger, journalize, analyze. 10.

The double-entry system requires that each transaction must be recorded A. In at least two different accounts. B. In two sets of books. C. In a journal and in a ledger. D. First as a revenue and then as an expense. E. First as an asset and then as a liability. 11. Which of the following describes the classification and normal balance of the retained earnings account? A. Asset, debit B. Stockholders' equity, credit C. Revenues, credit D. Expense, debit E. Liability, credits 12. A \$20, 000 machine is purchased by paying \$5, 000 cash and signing a note payable for the remainder. The journal entry should include a: A. Credit to note payable.