

ACCOUNTING COMPETENCY EXAM
SAMPLE EXAM

1. The accounting process does not include:
 - a. interpreting
 - b. reporting
 - c. purchasing
 - d. observing
 - e. classifying

2. The financial statement or statements that pertain to a stated period of time is (are) the:
 - a. balance sheet
 - b. balance sheet and journals
 - c. balance sheet and income statements
 - d. income statement
 - e. None of the above

3. External users of financial accounting information include:
 - a. lenders
 - b. prospective owners
 - c. customers
 - d. labor unions
 - e. All of the above

4. Expenses can be found in the:
 - a. statement of owner's equity
 - b. income statement
 - c. balance sheet
 - d. both b and c
 - e. all of the above

5. This account does not appear on the income statement:
 - a. accumulated depreciation
 - b. depreciation expense
 - c. sales revenue
 - d. marketing expense
 - e. interest expense

6. A brand new company has a building costing \$10,000, machinery costing \$5,000, cash of \$700, and a bank loan of \$7,850. What is the owner's equity?
 - a. \$8,850
 - b. \$15,700
 - c. \$7,750
 - d. cannot be determined
 - e. \$7,850

7. An example of an economic exchange includes:
 - a. a business owner purchases inventory on credit
 - b. a dry cleaning business cleans 3 dresses for a customer
 - c. an insurance agent sells a whole life policy
 - d. a contractor purchases a new truck for cash
 - e. all of the above

8. If a company has owner's equity of \$100,000,
 - a. assets minus liabilities equal \$100,000
 - b. total assets must equal \$100,000
 - c. net income for the past year was \$100,000
 - d. a total of \$100,000 was invested by the owner
 - e. none of the above

9. Providing services on account for \$40,000 would: R127
- increase cash \$40,000, decrease accounts receivable \$40,000
 - decrease accounts receivable \$40,000, decrease owner's equity \$40,000
 - increase accounts receivable \$40,000, increase owner's equity \$40,000
 - increase accounts receivable \$40,000, decrease owner's equity \$40,000
 - none of the above

Use the following information to answer the next four questions.

Joseph Forbes is the owner of his own business. On December 31, Forbes' assets, liabilities, revenues and expenses were:

Insurance Expense	\$3,000	Accounts Payable	\$4,000
Miscellaneous Expense	900	Accounts Receivable	5,000
Rent Expense	2,500	Cash	14,000
Salaries Expense	19,000	Equipment	11,000
Supplies Expense	1,200	Notes Payable	4,600
Services Performed	45,000	Supplies on hand	700

10. On December 31, total assets are equal to:
- \$25,700
 - \$19,700
 - \$22,100
 - \$30,700
 - none of the above
11. On December 31, net income is equal to:
- \$18,400
 - \$45,000
 - \$26,600
 - \$17,400
 - none of the above
12. On December 31, if net income equals \$15,000 and the ending owner's equity is \$20,000, and Forbes invested an additional \$2,600 in his business, while withdrawing \$6,000 during the year, the beginning owner's equity for this year was:
- \$7,100
 - \$7,400
 - \$8,400
 - \$7,400
 - none of the above
13. On December 31, current assets equal:
- \$ 9,000
 - \$19,700
 - \$19,000
 - \$23,000
 - none of the above
14. New Font Software provided services for customers of \$7,000. What is the entry if it billed customers for the total amount.
- Debit accounts receivable \$7,000; credit service revenue \$7,000
 - Debit notes receivable \$7,000; credit service revenue \$7,000
 - Debit cash \$7,000; credit service revenue \$7,000
 - Debit service revenue \$3,000; credit accounts receivable \$7,000
 - none of the above

15. Current Landscaping paid salaries of \$560 in cash. The accounting entry is:
- Debit salaries expense \$560; credit salaries payable \$560
 - Debit salaries expense \$560; credit cash \$560
 - Debit cash \$560; credit salaries expense \$560
 - Debit accounts payable \$560; credit cash \$560
 - none of the above
16. The Philip Company received a bill for natural gas. The bill is for \$550 and is payable in 30 days. The accounting entry is:
- Debit accounts receivable \$550; credit service revenue \$550
 - Debit accounts payable \$550; credit cash \$550
 - Debit natural gas expense \$550; credit accounts payable \$550
 - Debit natural gas expense \$550; credit cash \$550
 - none of the above
17. The following includes the accounts of the Perry Company on December 31. What is the total trial balance?
- | | | | |
|---------------------|---------|---------------------|-------|
| Accounts Receivable | \$1,000 | Supplies Expense | 250 |
| Cash | 4,500 | Drawing Account | 300 |
| Equipment | 4,000 | Advertising Expense | 50 |
| Salaries Expense | 1,600 | Accounts Payable | 3,050 |
| Revenues Earned | 2,800 | Capital Account | 6,050 |
| Rent Expense | 200 | | |
- \$11,900
 - 12,000
 - 9,100
 - 11,600
 - None of the above
18. Which of the following transactions require a compound journal entry?
- An owner invests personal cash in her business
 - Purchase of \$100 of supplies; some cash and the rest on account
 - Purchase three kinds of supplies for cash
 - Received cash from customers as payment for services
 - none of the above
19. Cross-indexing:
- shows the analysis of each transaction.
 - ties the journal and ledger together.
 - supplies an explanation of each transaction.
 - removes complicated explanations from the accounts.
 - c and d.

20. A truck was purchased on July 1 for \$20,000. The estimated salvage value is \$2,000. The estimated useful life is 3 years. The adjusting entry on December 31 is:
- | | | | |
|----|----------------------------------|----------|----------|
| a. | Depreciation Expense - Truck | \$555.56 | |
| | Accumulated Depreciation - Truck | | \$555.56 |
| b. | Accumulated Depreciation - Truck | 1,500 | |
| | Depreciation Expense - Truck | | 1,500 |
| c. | Depreciation Expense - Truck | 500 | |
| | Accumulated Expense - Truck | | 500 |
| d. | Depreciation Expense - Truck | 3,000 | |
| | Accumulated Depreciation - Truck | | 3,000 |
21. On May 1 company paid \$4,800 for two years of prepaid insurance beginning coverage. The adjusting entry on December 31 of that year is:
- Debit Insurance Expense; Credit Prepaid Insurance, \$1,200
 - Debit Insurance Expense; Credit Prepaid Insurance, \$800
 - Debit Prepaid Insurance; Credit Insurance Expense, \$1,600
 - Debit Insurance Expense; Credit Prepaid Insurance, \$1,600
22. On December 1 a company purchased supplies for \$1,300. On December 31, an actual physical inventory showed that \$800 of supplies were on hand. The closing adjusting entry is:
- Debit Supplies Expense; Credit Supplies on Hand, \$800
 - Debit Supplies Expense; Credit Supplies on Hand, \$1,300
 - Debit Supplies Expense, Credit Supplies on Hand, \$500
 - Debit Supplies on Hand; Credit Cash, \$500
23. The first step in the accounting cycle is:
- Prepare financial statements
 - Post journal entries to the accounts in the ledger
 - Journalize transactions in the journal
 - Analyze transactions by examining source documents
24. The Futures Company had revenues of \$50,000 and expenses of \$30,000 for the year. Mr. Futures withdrew \$5,000 from the business during the year. The accounting entry to close the Income Summary Account is:
- | | | | |
|----|----------------------|----------|----------|
| a. | Income Summary | \$20,000 | |
| | Mr. Futures, Capital | | \$20,000 |
| b. | Mr. Futures, Capital | 20,000 | |
| | Income Summary | | 20,000 |
| c. | Income Summary | 5,000 | |
| | Mr. Futures, Drawing | | 5,000 |
| d. | Mr. Futures, Drawing | 5,000 | |
| | Income Summary | | 5,000 |
25. An example of an adjusting entry for deferred items is:
- | | | | |
|----|------------------|----|----------------------|
| a. | expense to asset | c. | revenue to liability |
| b. | asset to expense | d. | liability to expense |

26. CMU Corp. has \$500,000 of accounts receivable and has found an average 3 percent of its credit sales are uncollectible. Suppose CMU Corp. determines that a customer owing \$10,000 will never pay. What would be the journal entry?
- | | | | |
|----|--------------------------------------|--------|--------|
| a. | Uncollectible Accounts Expense | \$300 | |
| | Allowance for Uncollectible Accounts | | \$300 |
| b. | Allowance for Uncollectible Accounts | 300 | |
| | Accounts Receivable | | 300 |
| c. | Uncollectible Accounts Expense | 10,000 | |
| | Allowance for Uncollectible Accounts | | 10,000 |
| d. | Allowance for Uncollectible Accounts | 10,000 | |
| | Accounts Receivable | | 10,000 |
27. Rowe, Inc. has a contract to construct a building for a price of \$100. So far it has spent \$60 of costs and it estimates an additional \$20 will be needed to finish the building. How much profit can be recognized using the percentage of completion method?
- | | | | |
|----|------|----|--------------------|
| a. | 0 | d. | \$40 |
| b. | \$15 | e. | None of the above. |
| c. | \$20 | | |
28. Warriner, Ltd. sells widgets for \$100, costing \$70 with payments to be made in 10 equal installments of \$10. If 3 payments have been received this year, using the installment basis of revenue recognition, what is the realized profit?
- | | | | |
|----|-----|----|------|
| a. | 0 | c. | \$9 |
| b. | \$3 | d. | \$30 |
29. Identify the advantage(s) of recognizing revenue at the time of sale.
- | | |
|----|--|
| a. | The actual transaction is an observable event. |
| b. | The likelihood of the sold item being returned for credit is remote. |
| c. | All of the above. |
| d. | None of the above. |
30. Rowe, Inc. has a contract to construct a building for a price of \$100. So far it has spent \$60 of costs and it estimates an additional \$20 will be needed to finish the building. How much profit can be recognized using the completed contract method?
- | | | | |
|----|------|----|------|
| a. | 0 | c. | \$20 |
| b. | \$15 | d. | \$40 |

Using the following table answer the next four questions.

Machine	
Purchase Price	\$80,000
Estimated Salvage Value	\$20,000
Estimated Useful Life	5 years
Estimated Units of Production	12,000

37. What is the depreciation in the second year using the straight-line method?
- | | | | |
|----|---------|----|----------|
| a. | 0 | c. | \$12,000 |
| b. | \$5,000 | d. | \$16,000 |
38. What is the depreciation using the units of production method in the second year when 4,000 units are made?
- | | | | |
|----|----------|----|----------|
| a. | \$4,000 | c. | \$20,000 |
| b. | \$10,000 | d. | \$27,000 |
39. What is the depreciation in the second year using the sum-of-the-years'-digits method?
- | | | | |
|----|----------|----|----------|
| a. | \$36,000 | c. | \$16,000 |
| b. | \$48,000 | d. | \$21,333 |
40. What is the depreciation using the double declining balance method in the second year?
- | | | | |
|----|----------|----|----------|
| a. | \$32,000 | c. | \$19,200 |
| b. | \$11,520 | d. | \$ 8,800 |
41. When a plant asset is retired from productive service, (without any sale) that originally cost \$50,000 and had accumulated depreciation of \$40,000, the correct accounting treatment is:
- | | | | |
|----|--------------------------------|----------|----------|
| a. | Plant Asset | \$50,000 | |
| | Accumulated Depreciation | | \$40,000 |
| | Loss | | 10,000 |
| b. | Loss | 10,000 | |
| | Accumulated Depreciation | 40,000 | |
| | Plant Asset | | 50,000 |
| c. | Loss on Plant Asset | 10,000 | |
| | Plant Asset | | 10,000 |
| d. | Nothing. The firm still has it | | |
42. What would be the correct journal entries to record \$5 depletion?
- | | | | |
|----|-----------------------|-----|-----|
| a. | Depletion Expense | \$5 | |
| | Accumulated Depletion | | \$5 |
| b. | Depletion Expense | 5 | |
| | Cash | | 5 |
| c. | Depletion Expense | 5 | |
| | Depletable Asset | | 5 |
| d. | Accumulated Depletion | 5 | |
| | Depletion Expense | | 5 |

43. Smith Corp. sold 100 shares of \$50 par value common stock for \$70 per share. What would be the correct journal entry?
- | | | | |
|----|-----------------|---------|---------|
| a. | Cash | \$7,000 | |
| | Common Stock | | \$7,000 |
| b. | Cash | 7,000 | |
| | Common Stock | | 5,000 |
| | Paid in Capital | | 2,000 |
| c. | Common Stock | 7,000 | |
| | Cash | | 7,000 |
| d. | Cash | 7,000 | |
| | Common Stock | | 2,000 |
| | Paid in Capital | | 5,000 |
44. Park, Inc. earned EBIT \$10,000,000 last year. If its tax rate was 40%, interest expense \$2,000,000 and number of common shares 1,000,000 what would be the EPS?
- | | | | |
|----|--------|----|--------|
| a. | \$8.00 | c. | \$4.80 |
| b. | \$6.00 | d. | \$4.00 |
45. Brooks Co. declared and paid a cash dividend of \$5,000. What would be the journal entries?
- | | | | |
|----|-------------------|---------|---------|
| a. | Retained Earnings | \$5,000 | |
| | Cash | | \$5,000 |
| b. | Retained Earnings | 5,000 | |
| | Dividends Payable | | 5,000 |
| c. | Dividends Payable | 5,000 | |
| | Cash | | 5,000 |
| | Retained Earnings | 5,000 | |
| | Dividends Payable | | 5,000 |
| d. | Retained Earnings | 5,000 | |
| | Dividends Payable | | 5,000 |
| | Dividends Payable | 5,000 | |
| | Cash | | 5,000 |
46. A corporation issues \$50,000 of a 8% coupon, \$1,000 par value bond. What would be the semi-annual interest payment journal entry?
- | | | | |
|----|------------------------|---------|---------|
| a. | Bonds Payable | \$4,000 | |
| | Cash | | \$4,000 |
| b. | Bonds Interest Expense | 4,000 | |
| | Cash | | 4,000 |
| c. | Bonds Payable | 2,000 | |
| | Cash | | 2,000 |
| d. | Bond Interest Expense | 2,000 | |
| | Cash | | 2,000 |

47. Given the following balance sheets of three firms, which appears to have greater financial leverage?

	Firm A	Firm B	Firm C
Debt	\$ 2	\$ 40	\$15
Equity	<u>8</u>	<u>60</u>	<u>35</u>
Total Assets	\$10	\$100	\$50

- a. Firm A
 b. Firm B
 c. Firm C
 d. All the same
48. Given the following income statements of three companies, which appears to have greater financial leverage based upon the times interest earned ratio which is EBIT divided by interest?

	Firm A	Firm B	Firm C
EBIT	\$50	\$100	\$75
Interest	10	15	5
EBT	40	85	70
Taxes	20	45	50
EAT	20	40	20

- a. Firm A
 b. Firm B
 c. Firm C
 d. All the same
49. What is the maximum life that the intangible asset patent value can be amortized?
- a. The asset's legal life
 b. The useful life
 c. 17 years
 d. 40 years
50. A company is being sued for \$100,000. What would be recorded on the balance sheet?
- a. Nothing
 b. \$100,000 Set-aside Cash
 c. \$100,000 Liability
 d. \$100,000 Contingent Liability

SAMPLE EXAM KEY

1. c, see p. R4
2. d, see p. R9
3. e, see pp. R5-R6
4. b, see p. R9
5. a, see p. R9
6. e, see p. R13
7. e, see p. R17
8. a, see pp. R18-R19
9. c, see pp. R22
10. d, see pp. R11, R25
11. a, see pp. R9, R25
12. c, see pp. R9-R10
13. b, see p. R11
14. a, see p. R36
15. b, see p. R37
16. c, see p. R36
17. a, see p. R43
18. b, see pp. R42-R43
19. b, see p. R41
20. d, see p. R52
21. d, see p. R49
22. c, see p. R51
23. d, see p. R46
24. a, see p. R58
25. b, see p. R47
26. d, see p. R65
27. b, see p. R64
28. c, see p. R63
29. a, see p. R62
30. a, see p. R64
31. b, see p. R72
32. c, see p. R73
33. b, see pp. R73-R74
34. b, see pp. R74-R75
35. d, see p. R69
36. c, see p. R69
37. c, see p. R80
38. c, see p. R80
39. c, see p. R80
40. c, see pp. R80-R81
41. b, see p. R82
42. a, see p. R81
43. b, see p. R91
44. c, see p. R93
45. d, see p. R92
46. d, see p. R88
47. b, see pp. R93-R94
48. a, see pp. R93-R94
49. c, see p. R78
50. a, see p. R88