

Sample Test for Financial Accounting

Multiple Choice

Identify the letter of the choice that best completes the statement or answers the question.

- _____ 1. In the annual report, where would a financial statement reader find out if the company's financial statements give a fair depiction of its financial position and operating results?
- Notes to the financial statements
 - Management discussion and analysis section
 - Balance sheet
 - Auditor's report
 - None of the options listed
- _____ 2. Which accounting assumption assumes that an enterprise will continue in operation long enough to carry out its existing objectives and commitments?
- Monetary unit assumption
 - Economic entity assumption
 - Time period assumption
 - Going concern assumption
 - None of the options listed

Johnny's Car Repair Shop started the year with total assets of \$60,000 and total liabilities of \$40,000. During the year the business recorded \$100,000 in car repair revenues, \$55,000 in expenses, and dividends of \$10,000.

- _____ 3. The net income reported by Johnny's Car Repair Shop for the year was
- \$35,000.
 - \$45,000.
 - \$20,000.
 - \$90,000.
 - none of the options listed
- _____ 4. The purchase of an office building by issuing long-term notes payable should be reported as a
- cash outflow in the financing section of the statement of cash flows.
 - cash outflow in the investing section of the statement of cash flows.
 - cash outflow in the operating section of the statement of cash flows.
 - noncash investing and financing activity.
 - none of the options listed
- _____ 5. If beginning capital was \$25,000, ending capital is \$37,000, and the owner's withdrawals were \$23,000, the amount of net income or net loss for the period was:
- net loss of \$35,000
 - net income of \$35,000
 - net income of \$14,000
 - net loss of \$14,000
 - none of the options listed
- _____ 6. The deferred income tax liability:
- Represents income tax payments that are deferred until future years because of temporary differences between GAAP rules and tax accounting rules.
 - Is a contingent liability.

- c. Can result in a deferred income tax asset.
 - d. Is never recorded.
 - e. Is recorded whether or not the difference between taxable income and financial accounting income is permanent or temporary.
- _____ 7. A company normally sells its products for \$20 per unit, which includes a profit margin of 25%. However, the selling price has fallen to \$15 per unit. This company's current inventory consists of 200 units purchased at \$16 per unit. Replacement cost has now fallen to \$13 per unit. Calculate the value of inventory at the lower of cost or market.
- a. \$2,550.
 - b. \$2,600.
 - c. \$2,700.
 - d. \$3,000.
 - e. \$3,200.
- _____ 8. A measure of profitability is the
- a. current ratio.
 - b. debt to total assets ratio.
 - c. return on assets ratio.
 - d. working capital.
 - e. none of the options listed
- _____ 9. Working capital is a measure of
- a. consistency.
 - b. liquidity.
 - c. profitability.
 - d. solvency.
 - e. none of the options listed
- _____ 10. The difference between the balance of a plant asset account and the related accumulated depreciation account is termed
- a. market value.
 - b. contra asset.
 - c. book value.
 - d. liability.
 - e. none of the options listed
- _____ 11. A company purchased a POS cash register on January 1 for \$5,400. This register has a useful life of 10 years and a salvage value of \$400. What would be the depreciation expense for the second-year of its useful life using the double-declining-balance method?
- a. \$ 500.
 - b. \$ 800.
 - c. \$ 864.
 - d. \$1,000.
 - e. \$1,080.
- _____ 12. Which of the following is *not* an activity listed in the statement of cash flows?
- a. Investing Activities
 - b. Funding Activities
 - c. Operating Activities
 - d. Financing Activities
 - e. None of the options listed

- _____ 13. Net present value is negative when
- the present value of cash inflows is greater than the present value of cash outflows.
 - the present value of cash outflows is greater than the present value of cash inflows.
 - the future value of cash inflows is greater than the present value of cash outflows.
 - the present value of cash outflows is greater than the future value of cash outflows.
 - none of the options listed
- _____ 14. Which of the following is an example of a deferral?
- Accruing year-end wages
 - Recognizing revenues earned but not yet recorded
 - Recording prepaid rent
 - Recognizing expenses incurred but not yet recorded
 - None of the options listed
- _____ 15. A company began the accounting period with \$50,000 in owner's capital, ended with \$75,000 in owner's capital, and the owner withdrew \$30,000 during the period for personal use. What was the company's net income or loss for the period?
- \$55,000 net income
 - \$30,000 net loss
 - \$5,000 net loss
 - \$5,000 net income
 - none of the options listed
- _____ 16. Deciding whether to record a sale when the order for services is received or when the services are performed is an example of a
- classification issue.
 - valuation issue.
 - recognition issue.
 - communication issue.
 - none of the options listed

Sample Test for Financial Accounting Answer Section

MULTIPLE CHOICE

1. ANS: D
2. ANS: D
3. ANS: B
4. ANS: D
5. ANS: B
6. ANS: A
7. ANS: B
8. ANS: C
9. ANS: B
10. ANS: C
11. ANS: C
12. ANS: B
13. ANS: B
14. ANS: C
15. ANS: A
16. ANS: C