

Entrance Test – Accounting and Management
45 minutes

1) Which of the following describes the primary objective of the balance sheet?

A. To measure the net income of a business up to a particular point in time.

B. To report the difference between cash inflows and cash outflows for the period.

C. To report the financial position of the reporting entity at a particular point in time.

D. To report the market value of assets, liabilities, and stockholders' equity at a particular point in time.

The balance sheet reports the amount of assets, liabilities, and stockholders' equity (financial position) of an accounting entity at a particular point in time. These positions are reported at historical cost, not market value.

2) Which of the following properly describes the impact on the financial statements when a company borrows \$20,000 from a local bank?

A. Net income increases \$20,000.

B. Assets decrease \$20,000.

C. Stockholders' equity increases \$20,000.

D. Liabilities increase \$20,000.

The amount borrowed needs to be repaid, and the local bank is a creditor; therefore, liabilities are increased by the amount of the loan.

3) Which of the following best describes the balance sheet?

A. It includes a listing of assets at their market values.

B. It includes a listing of assets, liabilities, and stockholders' equity at their market values.

C. It provides information pertaining to a company's assets and the claims against sources of financing for those assets.

D. It provides information pertaining to a company's liabilities for a period of time.

The balance sheet reports the economic resources (assets), and the liabilities and stockholders' equity (financing sources) at their historical costs.

4) Which of the following statements is correct?

A. Assets on the balance sheet include retained earnings.

B. Retained earnings includes common stock.

C. The balance sheet equation states that assets equal liabilities.

D. A corporation's net income does not necessarily equal its net cash flow from operations.

Revenue is recorded as it is earned, not necessarily when the cash from the sales is collected.

Expenses are recorded when incurred in generating revenue regardless of when cash is expended.

5) Which of the following correctly describes the various financial statements?

A. An income statement covers a period of time.

B. The cash flow statement is a financial statement at a specific point in time.

C. The balance sheet is a financial statement that covers a period of time.

D. The statement of stockholders' equity is a financial statement at a specific point in time.

The income statement reports the performance of a business during the accounting period.

6) Which financial statement would you use to determine a company's earnings performance during an accounting period?

- A. Balance sheet.
- B. Statement of stockholders' equity.
- C. Income statement.**
- D. Statement of cash flows.

The income statement reports the company's financial performance over an accounting period.

7) Which of the following would not be found on the statement of cash flows?

- A. Cost flow from manufacturing activities.**
- B. Cash flow from operating activities.
- C. Cash flow from investing activities.
- D. Cash flow from financing activities.

The statement of cash flows includes cash flows from operating, investing, and financing activities.

8) Which of the following accounts is not a liability on the balance sheet?

- A. Retained earnings.**
- B. Notes payable.
- C. Accounts payable.
- D. Bank loans.

Retained earnings is reported on the balance sheet as a component of stockholders' equity.

9) Which of the following is the amount of revenue reported on the income statement of a retail company?

- A. The cash collected from customers during the current period.
- B. Both cash and credit sales for the period.**
- C. Cash sales for the period and collections from customers.
- D. Cash sales and stockholders' investments.

Revenue for a retail company includes all sales earned during the accounting period, both cash and credit.

10) Which of the following transactions increases both cash and net income?

- A. Cash receipts from a bank loan.
- B. Cash receipts from sale of common stock.
- C. Cash receipts from customers for services provided.**
- D. Cash receipts from cost of goods sold.

Net income is the result of revenues less cost of goods sold and other expenses. Cash receipts from customers increases revenue, which flows through to an increase in net income. Cash receipts also increase the cash account.

11) Which of the following is considered to be an expense on the income statement?

- A. Accounts payable.
- B. Notes payable.
- C. Bank loans.
- D. Cost of goods sold.**

Income statements begin with sales less cost of goods sold.

12) Which of the following best describes assets?

- A. They are equal to liabilities minus stockholders' equity.
- B. They are considered to be the economic resources of the business.**
- C. They are all reported on the balance sheet at their current market value.
- D. They equal financing provided by creditors.

Assets include but are not limited to cash, inventory, and land. These are considered to be economic resources of a business.

- 13) When would a company report a net loss on the income statement?
- A. When revenues are less than the sum of expenses plus dividends during an accounting period.
 - B. If assets decreased during an accounting period.
 - C. If liabilities increased during an accounting period.
 - D. When expenses exceeded revenues for an accounting period.**

Net income or loss is equal to revenues less expenses. If expenses exceed revenues, a business would report a net loss.

- 14) Within which of the following would you find the inventory method(s) being used by a business entity?

- A. Balance sheet.
- B. Income statement.
- C. Notes to the financial statements.**
- D. Headings of the financial statements.

The notes provide information behind the numbers that allow the user to completely understand the financial statements.

- 15) Which of the following best describes liabilities and stockholders' equity?

- A. They are the sources of financing an entity's assets.**
- B. They are the economic resources used by a business entity.
- C. They are reported on the income statement.
- D. They both increase when assets increase.

Liabilities are a source of financing from creditors. Stockholders' equity is a source of financing from stockholders.

- 16) Which of the following equations is the balance sheet equation?

- A. Assets + Liabilities = Stockholders' Equity.
- B. Assets + Stockholder's Equity = Liabilities.
- C. Assets = Liabilities + Stockholders' Equity.**
- D. Assets = Liabilities + Common Stock.

A balance sheet has two sides: the left side is assets and the right side has both liabilities and stockholders' equity. The total balance from each side must equal each other. Thus, Assets = Liabilities + Stockholders' Equity.

- 17) The higher entry barriers [the stronger/**the weaker**] price competition in an industry

- 18) The higher suppliers' differentiation [**the stronger**/the weaker] their bargaining power

- 19) Financial resources are [**Tangible**/Intangible/Human];

- 20) Contracting out the supply of components is part of the [inbound logistic/**procurement**/

outbound logistic]

21) A company invests 1000\$ in buying a machine to reduce the time required to execute an activity. Is the machine source of competitive advantage for the firm? [Yes/No]

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