

MULTIPLE CHOICES QUESTIONS
ACCOUNTING

1. 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.

2. Lena Company has provided the following data (ignore income taxes):

2014 revenues were \$99,000.
2014 expenses were \$47,800.
Dividends declared and paid during 2014 totaled \$9,500.
Total assets at December 31, 2014 were \$177,000.
Total liabilities at December 31, 2014 were \$89,000.
Common stock at December 31, 2014 was \$28,000.

Which of the following is correct?

- A. 2014 net income was \$41,700.
- B. Total stockholders' equity at December 31, 2014 was \$236,000.
- C. Retained earnings at December 31, 2014 were \$60,000.
- D. Retained earnings at December 31, 2014 were \$41,700.

3. Which of the following would immediately cause a change in a corporation's retained earnings?

- A. Net income or net loss and declaration of dividends.
- B. Declaration of dividends and issuance of common stock to new stockholders.
- C. Net income and issuance of stock to new stockholders.
- D. Declaration of dividends and purchase of new machinery.

4. Which of the following is included within current assets on a balance sheet?

- A. Land.
- B. A truck.
- C. Inventory.
- D. Intangible assets.

5. At the beginning of 2014, a corporation had assets of \$270,000 and liabilities of \$160,000. During 2014, assets increased \$25,000 and liabilities increased \$5,000. What was stockholders' equity on December 31, 2014?

- A. \$140,000.
- B. \$130,000.
- C. \$190,000.
- D. \$80,000.

6. How are creditor and investor claims reported on a balance sheet?

- A. The claims of creditors are liabilities and those of investors are assets.
- B. The claims of both creditors and investors are liabilities, but only the claims of investors are considered to be long-term.
- C. The claims of creditors are reported as liabilities while the claims of investors are recorded as stockholders' equity.
- D. The claims of creditors and investors are considered to be essentially equivalent.

7. 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.

8. Which of the following would be reported in the financing activities section of a cash flow statement?

- A. Cash paid for dividends to stockholders.
- B. Cash paid for interest expense.
- C. Cash paid to acquire equipment.
- D. Cash received from sale of investments.

9. Which of the following describes the reporting of interest expense on the income statement?

- A. It is reported as an operating expense.
- B. It is a component of operating income.
- C. It is deducted from operating income.
- D. It is added to operating income.

10. When a company buys equipment for \$150,000 and pays for one third in cash and the other two thirds is financed by a note payable, which of the following are the effects on the accounting equation?

- A. Total assets increase \$150,000.
- B. Total liabilities increase \$150,000.
- C. Total liabilities decrease \$50,000.
- D. Total assets increase \$100,000.

11. Which of the following events will cause retained earnings to increase?

- A. Dividends declared by the Board of Directors.
- B. Net income reported for the period.
- C. Net loss reported for the period.
- D. Issuance of stock in exchange for cash.

12. Which of the following is not reported as an operating expense on the income statement?

- A. Salaries expense.
- B. Rent expense.
- C. Interest expense.
- D. Cost of goods sold.

13. Which of the following statements is false?

- A. The income statement covers a period of time.
- B. A loss on the sale of plant and equipment is considered a peripheral activity and is not reported on the income statement.
- C. Rent expense is a component of operating income.
- D. Interest expense is not a component of operating income.

14. Which of the following correctly describes retained earnings?

- A. It is the cumulative earnings of a company.
- B. It represents the investments by stockholders in a company.
- C. It equals total assets minus total liabilities.
- D. It is the cumulative earnings of a company less dividends declared.

15. Which of the following statements is false?

- A. A liability is created when cash is received prior to delivery of the goods or services.
- B. Revenue is recognized at the time of delivery of the goods or services if cash is received.
- C. Revenue is not recognized at the time of delivery of goods and services if cash is received after delivery of the goods and services.
- D. Collecting cash after delivery of a good or service does not create revenue on the income statement at the date of collection.

16. Which of the following liability accounts is likely to be satisfied without a future cash payment?

- A. Wages payable.
- B. Unearned revenue.
- C. Accounts payable.
- D. Taxes payable.

17. Which of the following accounts normally have a credit balance?

- A. Unearned revenues; Prepaid rent; Revenues.
- B. Revenues; Expenses; Retained earnings.
- C. Revenues; Cash; Unearned revenue.
- D. Accounts payable; Retained earnings; Revenues.

18. Which of the following accounts normally have a debit balance?

- A. Prepaid expenses, Wages payable, Dividends.
- B. Cash, Utilities expense, Accounts receivable.
- C. Retained earnings, Cost of goods sold, Wages expense.
- D. Utilities expense, Prepaid expenses, Wages payable.

19. Mama June Pizza Company sold land costing \$39,000 for \$51,000 cash. Which of the following statements concerning the land sale is correct?

- A. The land account was credited for \$51,000.
- B. The revenue account was debited for \$51,000.
- C. Operating income increased \$12,000.
- D. Income before income taxes increased \$12,000.

20. Borrowing cash from a bank would result in which of the following?

- A. A debit to cash and a credit to notes payable.
- B. A debit to notes payable and a credit to cash.
- C. A debit to both cash and notes payable.
- D. A debit to cash and a credit to additional paid-in capital.