

Achievement Test 1: Chapters 1 and 2
Accounting Principles, 11e
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Name _____
Instructor _____
Section # _____ Date _____

Part	I	II	III	IV	Total
Points	54	26	10	10	100
Score					

PART I — MULTIPLE CHOICE (54 points)

Instructions: Designate the best answer for each of the following questions.

- _____ 1. "GAAP" refers to
- General Association of Accounting Practitioners.
 - General Accounting and Auditing Principles.
 - Generally Accepted Accounting Principles.
 - Guidelines for American Accounting Procedures.
- _____ 2. The requirement that only transaction data capable of being expressed in terms of money be included in the accounting records relates to the
- economic entity assumption.
 - cost principle.
 - monetary unit assumption.
 - both the cost principle and the monetary unit assumption.
- _____ 3. After a business transaction has been analyzed and entered in a journal, the next step in the recording process is to transfer the information to
- ledger accounts.
 - owner's equity.
 - the company's bank.
 - financial statements.
- _____ 4. Which ledger account should management examine in order to determine the amounts due from customers?
- Supplies.
 - Accounts Payable.
 - Service Revenue.
 - Accounts Receivable.

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- _____ 5. If liabilities increased by \$20,000 and owner's equity increased by \$8,000 during a period of time, then total assets must change by what amount and direction during that same period?
- a. \$28,000 increase.
 - b. \$28,000 decrease.
 - c. \$12,000 increase.
 - d. \$20,000 increase.
- _____ 6. Which of the following presents key aspects of the process of accounting in the correct chronological order?
- a. Recording, totaling, and auditing.
 - b. Identifying, recording, and communicating.
 - c. Totaling, auditing, and budgeting.
 - d. Budgeting, recording, and communicating.
- _____ 7. Suarez Company paid \$700 cash in advance for insurance coverage which will begin in the following month. As a result of this event,
- a. owner's equity decreased by \$700.
 - b. total assets decreased by \$700.
 - c. total assets remained the same.
 - d. liabilities decreased by \$700.
- _____ 8. Which of the following describes the process of identifying the economic events of an organization?
- a. Selecting the economic activities relevant to a particular organization.
 - b. Quantifying events in dollars and cents.
 - c. Keeping a chronological diary of particular events in an orderly and systematic manner.
 - d. Preparing accounting reports, including financial statements.
- _____ 9. The current source of "GAAP" in the United States is the
- a. Securities Exchange Commission.
 - b. Accounting Principles Board.
 - c. International Accounting Standards Board.
 - d. Financial Accounting Standards Board.
- _____ 10. As of April 30, 2014, Marcus Tools has assets of \$90,000, and liabilities of \$62,000. How much is the owner's equity for Marcus Tools as of April 30, 2014?
- a. \$152,000.
 - b. \$28,000.
 - c. \$90,000.
 - d. \$62,000.
- _____ 11. Which of the following is an account for which its normal balance is a credit?
- a. Prepaid Insurance.
 - b. Accounts Receivable.
 - c. Unearned Service Revenue.
 - d. Rent Expense.

- ____ 12. Which of the following is **false** with regard to a general journal?
- a. It helps to prevent errors since the debit and credit amounts in an individual entry can be readily compared.
 - b. It discloses in one place the complete effects of a transaction.
 - c. It provides a chronological record of transactions.
 - d. It tracks the increases and decreases in an individual account.
- ____ 13. Financial statements combining the operations of Target and Walmart would violate the
- a. economic entity assumption.
 - b. cost principle.
 - c. monetary unit assumption.
 - d. both the cost principle and the monetary unit assumption.
- ____ 14. A debit will increase _____, but decrease _____.
- a. accounts payable; owner's capital
 - b. accounts receivable; accounts payable
 - c. revenues; accounts payable
 - d. owner's capital; prepaid insurance
- ____ 15. Which of the following entries made to record the payment of \$1,000 on account will cause the trial balance to be out of balance?
- a. Cash is debited for \$1,000 and Service Revenue is credited for \$1,000.
 - b. Cash is debited for \$100 and Accounts Payable is credited for \$100.
 - c. Both Cash and Accounts Payable are credited for \$1,000.
 - d. A transaction is not recorded.
- ____ 16. On August 1, 2014, Homer Bates buys a copier machine for his business and makes this purchase with a cash down payment and issues a note payable for the balance. When journalizing this transaction, he will
- a. list the credit entries first, which is proper form for this type of transaction.
 - b. use two journal entries.
 - c. make a simple entry.
 - d. make a compound entry.
- ____ 17. Limited liability is a characteristic of
- a. a proprietorship.
 - b. a partnership.
 - c. a corporation.
 - d. both partnerships and corporations.
- ____ 18. Owner's Capital has a beginning total of \$60,000 and an ending total of \$110,000. If the owner withdrew \$20,000 during the period for personal use, net income must have been
- a. \$70,000.
 - b. \$50,000.
 - c. \$170,000.
 - d. \$80,000.

AT1- 4 Test Bank for Accounting Principles, Eleventh Edition**PART II — JOURNAL ENTRIES** (26 points)

The ledger accounts given below, with an identification number for each, are used by Young Company.

Instructions: Indicate the appropriate entries for the month of May by placing the appropriate identification number(s) in the debit and credit columns provided. Item 0 is given as an example. Write "none" if no entry is appropriate.

- | | | |
|------------------------|-----------------------------|--------------------------------|
| 1. Cash | 7. Salaries Payable | 13. Service Revenue |
| 2. Accounts Receivable | 8. Accounts Payable | 14. Equipment Expense |
| 3. Supplies | 9. Unearned Service Revenue | 15. Advertising Expense |
| 4. Prepaid Insurance | 10. Notes Payable | 16. Supplies Expense |
| 5. Prepaid Advertising | 11. Owner's Capital | 17. Rent Expense |
| 6. Equipment | 12. Owner's Drawing | 18. Salaries and Wages Expense |

Entry No.	Entry Information	Account(s) Debited	Account(s) Credited
0. May 1	Owner Steve Young invested \$40,000 in the business.	1	11
1. May 4	Equipment was purchased at a cost of \$7,000; a three-month, 10% note payable was signed for this amount.		
2. May 5	Paid a supplier \$1,500 cash on account.		
3. May 8	Paid \$1,800 in cash to Sands Company for May rent.		
4. May 10	Purchased supplies for \$2,500 cash. The supplies are expected to last through July.		
5. May 14	Paid \$300 cash to the Times Daily News for advertisements run this past week.		
6. May 16	Billed customers \$8,000 for services rendered.		
7. May 19	Received immediate payment of \$5,000 from customers for services rendered during the week.		
8. May 25	Additional supplies were purchased on account at a cost of \$800 from Ace Supplies. These supplies will be used during June.		
9. May 26	Received \$11,000 from customers for services to be rendered early in June.		
10. May 27	Paid City News \$300 for an advertisement that will run the first week in June.		
11. May 28	Received \$4,000 on account from customers.		
12. May 30	Owner Steve Young withdrew \$500 for personal use.		
13. May 30	Sue Lewis, Young's administrative assistant, was paid \$1,800 cash for her salary.		

PART III — SHORT PROBLEMS (10 points)

Instructions: Present the solutions, with appropriate supporting calculations, for each of the following independent problems.

1. Given the following information, compute the balance in the Owner's Capital account at January 1, 2014 for Handley Lawn Service.

Owner's Capital—December 31, 2014	\$170,000
Owner's investments during 2014	30,000
Owner's withdrawals during 2014	80,000
Net income for 2014	125,000

2. Given the following information, determine the three missing amounts.

Beginning of the Year		End of the Year		Owner's Equity Changes During the Year	
Total Assets	\$62,000	Total Assets	B	Investments	\$22,000
Total Liabilities	23,000	Total Liabilities	\$40,000	Drawings	10,000
Total Owner's Equity	A	Total Owner's Equity	58,000	Revenues	C
				Expenses	57,000

A.

B.

C.

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PART IV — TYPES OF ACCOUNTS (10 points)

Instructions: Place a check in the appropriate columns to designate whether each of the following accounts: (1) has a *debit* or *credit* normal balance; and (2) is an *asset*, *liability*, or *owner's equity* account.

Account	(1)		(2)		
	Debit	Credit	Asset	Liability	Owner's Equity
1. Notes Payable					
2. Rent Expense					
3. Owner's Capital					
4. Supplies					
5. Accounts Payable					
6. Accounts Receivable					
7. Owner's Drawing					
8. Unearned Service Revenue					
9. Service Revenue					
10. Prepaid Insurance					

Solutions — Achievement Test 1: Chapters 1 and 2**PART I — MULTIPLE CHOICE** (54 points)

- | | | | | | |
|------|------|------|-------|-------|-------|
| 1. c | 4. d | 7. c | 10. b | 13. a | 16. d |
| 2. c | 5. a | 8. a | 11. c | 14. b | 17. c |
| 3. a | 6. b | 9. d | 12. d | 15. c | 18. a |

PART II — JOURNAL ENTRIES (26 points)

	Account(s) <u>Debited</u>	Account(s) <u>Credited</u>		Account(s) <u>Debited</u>	Account(s) <u>Credited</u>
0.	1	11	7.	1	13
1.	6	10	8.	3	8
2.	8	1	9.	1	9
3.	17	1	10.	5	1
4.	3	1	11.	1	2
5.	15	1	12.	12	1
6.	2	13	13.	18	1

PART III — SHORT PROBLEMS (10 points)

- | | |
|--|------------------|
| 1. Net income for 2014..... | \$125,000 |
| Withdrawals during 2014..... | \$(80,000) |
| Investments during 2014..... | <u>\$ 30,000</u> |
|
Net change in capital account..... |
\$75,000 |
| Ending capital balance 12/31/2014..... | <u>\$170,000</u> |
|
Beginning capital balance 1/1/2014..... |
\$95,000 |
| | |
| 2. Total owner's equity, \$39,000 (Beginning of year). | |
| Total assets, \$98,000 (End of year). | |
| Revenues during the year, \$64,000. | |

PART IV — TYPES OF ACCOUNTS (10 points)

	<u>Debit</u>	<u>Credit</u>	<u>Asset</u>	<u>Liability</u>	<u>Owner's Equity</u>
1.		√		√	
2.	√				√
3.		√			√
4.	√		√		
5.		√		√	
6.	√		√		
7.	√				√
8.		√		√	
9.		√			√
10.	√		√		