Chapters 1 & 2, TEST A

Name ______________________________
Date ______________________________

SCORING RECORD

Section	Total Possible	Deductions	Student Score
A	30		
B	30		
C	10		
D	30		
Total	100		

Section A

Directions: Each of the following statements is true or false. Indicate your choice by writing in the Answers column T for a true answer or F for a false answer. (*2 points for each correct answer)*

	Answers	For Scoring
1. The purpose of accounting is to provide management information about a business to individuals, agencies, and organizations.	__F__	_____
2. The Securities and Exchange Commission (SEC) has the power to require firms to follow generally accepted accounting principles (GAAP).	__T__	_____
3. There are only two types of business ownership: partnerships and sole proprietorships.	__F__	_____
4. A business that produces a product to sell to retailers is called a merchandising business.	__F__	_____
5. A sole proprietorship can have multiple owners.	__F__	_____
6. As explained in the text, there are six major steps in the accounting process.	__T__	_____
7. The drawing account is used to record assets distributed by the business to the owner.	__T__	_____
8. A business transaction usually requires an exchange between the business and another outside entity.	__T__	_____
9. Assets represent something owed to another business entity.	__F__	_____
10. In a business, capital is equal to cash.	__F__	_____
11. When analyzing the effects of every business transaction, the accountant must always answer the following question: "What do I owe?"	__F__	_____
12. The concept that income determination can be made on a periodic basis is known as the accounting period concept.	__T__	_____
13. Assets + Liabilities = Owner's Equity.	__F__	_____
14. The balance sheet reports the earnings of the business over time.	__F__	_____
15. The heading for all financial statements contains the company's name, the report title, and the date on which the report was prepared.	__F__	_____

Section B

Directions: Complete each of the following statements by writing in the Answers column the letter of the word or words that correctly completes each statement or answers the question. *(3 points each)*

		Answers	For Scoring
1.	Users of accounting information may include (A) owners; (B) managers; (C) creditors; (D) government agencies; (E) all of these.	__E__	_____
2.	Looking at events that have taken place and thinking about how they affect the business is (A) analyzing; (B) recording; (C) classifying, (D) summarizing; (E) reporting.	__A__	_____
3.	The Sarbanes-Oxley Act (SOX) was passed by Congress to (A) keep all managers from doing something illegal; (B) require that all companies send reports to the government; (C) improve reporting by public companies; (D) give the Securities and Exchange Commission (SEC) legal rights; (E) allow public accounting firms to provide management advising services.	__C__	_____
4.	The amount by which the business assets exceed the business liabilities is (A) net income; (B) owner's equity; (C) revenue; (D) A & C; (E) B & C.	__B__	_____
5.	Rod paid $1,000 for the month's rent. This transaction would (A) increase an asset and decrease an asset; (B) increase an asset and increase a liability; (C) decrease an asset and increase owner's equity; (D) decrease an asset and decrease owner's equity; (E) increase two asset accounts.	__D__	_____
6.	Ken paid $400 cash for services he had received earlier in the month. This transaction would (A) increase an asset and decrease an asset; (B) increase an asset and decrease a liability; (C) increase an asset and increase owner's equity; (D) decrease a liability and increase owner's equity; (E) none of these.	__E__	_____
7.	Owner's equity is <u>not</u> affected by (A) investments; (B) withdrawals by the owner; (C) profits; (D) losses; (E) all transactions.	__E__	_____
8.	Mr. T invested $20,000 in cash into his business. This transaction would (A) increase assets and decrease owner's equity; (B) decrease assets and increase owner's equity; (C) decrease assets and decrease liabilities; (D) increase assets and increase owner's equity; (E) none of these.	__D__	_____
9.	Which of the following accounts is a liability? (A) Accounts Payable; (B) Sales; (C) Prepaid Insurance; (D) Retained Earnings; (E) Drawing.	__A__	_____
10.	Which is an example of a merchandising business? (A) a car manufacturer; (B) a dentist; (C) a toy factory; (D) a pharmacy; (E) a travel agency.	__D__	_____

Section C

Directions: Match the letter corresponding to one of the basic elements of accounting to each of the accounts below. A = Asset, L = Liability, and O = Owner's Equity. *(2 points for each correct answer)*

a. Prepaid Insurance __A__

b. Rent Expense __O__

c. Accounts Payable __L__

d. Delivery Equipment __A__

e. T. Smart, Drawing __O__

Section D

Rory Alia has started her own business. During the first month, the following transactions occurred.

(a) She invested $10,000 cash in the business.
(b) Paid $800 for insurance for the next 12 months.
(c) Purchased a computer on account for $1,200.
(d) Received $500 cash from a client for professional services rendered.
(e) Paid $200 office rent for the month.
(f) Paid $300 on account for the computer purchased in (c) above.

Directions: Using the lines provided below, show the effect of each transaction on the basic elements of the accounting equation: assets, liabilities, and owner's equity. Compute the new amounts for each element after each transaction to show that the accounting equation has remained balanced. *(30 points total)*

	ASSETS		LIABILITIES	OWNER'S EQUITY
(a)	+$10,000	=		+ $10,000
Bal.	10,000	=		10,000
(b)	– 600	=		
	+ 600			
Bal.	10,000	=		10,000
(c)	+ 1,200	=	+$1,200	
Bal.	11,200	=	1,200	10,000
(d)	+ 500	=		+ 500
Bal.	11,700	=	1,200	10,500
(e)	– 200	=		– 200
Bal.	11,500	=	1,200	10,300
(f)	– 300	=	– 300	
Bal.	$11,200	=	$900	$10,300