

NACM Financial Accounting Exam One – Answer Key

1. Profit is the difference between
 - a. assets and liabilities
 - b. the incoming cash and outgoing cash
 - c. the assets purchased with cash contributed by the owner and the cash spent to operate the business
 - d. **the amounts received from customers for goods or services and the amounts paid for the inputs used to provide the goods or services**

2. Which of the following **best** describes accounting?
 - a. records economic data but does not communicate the data to users according to any specific rules
 - b. **is an information system that provides reports to users regarding economic activities and condition of a business**
 - c. is of no use by individuals outside of the business
 - d. is used only for filling out tax returns and for financial statements for various types of governmental reporting requirements

3. The initials GAAP stand for
 - a. General Accounting Procedures
 - b. Generally Accepted Plans
 - c. **Generally Accepted Accounting Principles**
 - d. Generally Accepted Accounting Practices

4. Denzel Jones owns and operates Crystal Cleaning Company. Recently, Denzel withdrew \$18,000 from Crystal Cleaning, and he contributed \$14,000, in his name, to Habitat for Humanity. The contribution of the \$14,000 should be recorded on the accounting records of which of the following entities?
 - a. Crystal Cleaning and Habitat for Humanity
 - b. **Denzel Jones' personal records and Habitat for Humanity**
 - c. Denzel Jones' personal records and Crystal Cleaning
 - d. Denzel Jones' personal records, Crystal Cleaning, and Habitat for Humanity

5. Equipment with an estimated market value of \$55,000 is offered for sale at \$75,000. The equipment is acquired for \$20,000 in cash and a note payable of \$40,000 due in 30 days. The amount used in the buyer's accounting records to record this acquisition is
- \$55,000
 - \$60,000**
 - \$20,000
 - \$75,000
6. The accounting equation may be expressed as
- Assets = Equities - Liabilities
 - Assets + Liabilities = Owner's Equity
 - Assets = Revenues less Liabilities
 - Assets - Liabilities = Owner's Equity**
7. If total liabilities decreased by \$55,000 during a period of time and owner's equity increased by \$60,000 during the same period, the amount and direction (increase or decrease) of the period's change in total assets is
- \$115,000 increase
 - \$5,000 increase**
 - \$5,000 decrease
 - \$115,000 decrease
8. Owner's withdrawals
- increase expenses
 - decrease expenses
 - increase cash
 - decrease owner's equity**
9. Land, originally purchased for \$20,000, is sold for \$75,000 in cash. What is the effect of the sale on the accounting equation?
- assets increase \$75,000; owner's equity increases \$75,000
 - assets increase \$55,000; owner's equity increases \$55,000**
 - assets increase \$75,000; liabilities decrease \$20,000; owner's equity increases \$55,000
 - assets increase \$20,000; no change for liabilities; owner's equity increases \$75,000

10. Countries outside the U.S. use financial accounting standards issued by the:
- LLC
 - SEC
 - IASB**
 - GAAP
11. Accounts are classified in the ledger
- chronologically
 - alphabetically
 - in accordance with their appearance in the financial statements**
 - so that accounts used most often are listed first
12. An account is said to have a debit balance if
- the amount of the debits exceeds the amount of the credits**
 - there are more entries on the debit side than on the credit side
 - there are more entries on the credit side than on the debit side
 - the first entry of the accounting period was posted on the debit side
13. Which of the following types of accounts have a normal credit balance?
- assets and liabilities
 - liabilities and expenses
 - revenues and capital**
 - capital and drawing
14. Which of the following groups of accounts have a normal debit balance?
- revenues, liabilities, capital
 - capital, assets
 - liabilities, capital
 - assets, expenses**

NACM Financial Accounting
Exam One – Answer Key

15. A credit balance in which of the following accounts would indicate a likely error?
- a. Fees Earned
 - b. **Salary Expense**
 - c. Janet James, Capital
 - d. Accounts Payable
16. Which of the following entries records the acquisition of office supplies on account?
- a. Office Supplies, debit; Cash, credit
 - b. Cash, debit; Office Supplies, credit
 - c. **Office Supplies, debit; Accounts Payable, credit**
 - d. Accounts Receivable, debit; Office Supplies, credit
17. Which of the following entries records the collection of cash from cash customers?
- a. Fees Earned, debit; Cash, credit
 - b. Fees Earned, debit; Accounts Receivable, credit
 - c. **Cash, debit; Fees Earned, credit**
 - d. Accounts Receivable, debit; Fees Earned, credit
18. A patient has a physical examination and asks the bookkeeper to mail the bill. The bookkeeper should
- a. make no entry until the cash is received
 - b. Cash, debit; Accounts Receivable, credit
 - c. Cash, debit; Fees Earned, credit
 - d. **Accounts Receivable, debit; Fees Earned, credit**
19. A trial balance is prepared to
- a. prove that there were no errors made in recording transactions into the journal
 - b. prove that no errors were made in posting to the ledger
 - c. prove that each account balance is correct
 - d. **discover errors that affect the equality of debits and credits**

NACM Financial Accounting
Exam One – Answer Key

20. Which of the following errors, each considered individually, would cause the trial balance totals to be unequal?
- a. a transaction was not posted
 - b. a payment of \$67 for insurance was posted as a debit of \$42 to Prepaid Insurance and a credit of \$42 to Cash
 - c. **a payment of \$1,311 to a creditor was posted as a debit of \$3,111 to Accounts Payable and a debit of \$311 to Accounts Receivable**
 - d. cash received from customers on account was posted as a debit of \$680 to Cash and a credit of \$680 to Accounts Payable
21. Using accrual accounting, revenue is recorded and reported only
- a. when cash is received without regard to when the services are rendered
 - b. **when the services are rendered without regard to when cash is received**
 - c. when cash is received at the time services are rendered
 - d. if cash is received after the services are rendered
22. Deferred expenses have
- a. not yet been recorded as expenses but have been paid
 - b. been recorded as expenses and paid
 - c. been incurred and paid
 - d. **not yet been recorded as expenses**
23. The term used to indicate an expense that has not been paid and has not yet been recognized in the accounts by a routine entry is
- a. capital
 - b. deferral
 - c. **accrued**
 - d. inventory

24. The balance in the prepaid rent account before adjustment at the end of the year is \$24,000, which represents four months' rent paid on December 1. The adjusting entry required on December 31 is
- a. **debit Rent Expense, \$6,000; credit Prepaid Rent, \$6,000**
 - b. debit Prepaid Rent, \$18,000; credit Rent Expense, \$6,000
 - c. debit Rent Expense, \$18,000; credit Prepaid Rent, \$6,000
 - d. debit Prepaid Rent, \$6,000; credit Rent Expense, \$6,000
25. The balance in the office supplies account on June 1 was \$6,300, supplies purchased during June were \$3,100, and the supplies on hand at June 30 were \$2,500. The amount to be used for the appropriate adjusting entry is
- a. \$3,700
 - b. \$11,900
 - c. \$5,700
 - d. **\$6,900**
26. The entry to adjust for the cost of supplies used during the accounting period is
- a. **Supplies Expense, debit; Supplies, credit**
 - b. Owner, Capital, debit; Supplies, credit
 - c. Accounts Payable, debit; Supplies, credit
 - d. Supplies, debit; Owner, Capital, credit
27. The adjusting entry to record the depreciation of equipment for the fiscal period is
- a. debit Depreciation Expense; credit Equipment
 - b. **debit Depreciation Expense; credit Accumulated Depreciation**
 - c. debit Accumulated Depreciation; credit Depreciation Expense
 - d. debit Equipment; credit Depreciation Expense

NACM Financial Accounting
Exam One – Answer Key

28. The net income reported on the income statement is \$85,000. However, adjusting entries have not been made at the end of the period for supplies expense of \$2,200 and accrued salaries of \$800. Net income, as corrected, is
- \$84,200
 - \$85,000
 - \$82,800
 - \$82,000**
29. At the end of the fiscal year, the usual adjusting entry for depreciation on equipment was omitted. Which of the following statements is **true**?
- Total assets will be understated at the end of the current year.
 - The balance sheet and income statement will be misstated but the statement of owner's equity will be correct for the current year.
 - Net income will be overstated for the current year.**
 - Total liabilities and total assets will be understated.
30. What is the purpose of the adjusted trial balance?
- to verify that all of the adjusting entries have been posted
 - to verify that the net income <loss> is correctly reported
 - to verify that no adjusting journal entry has been omitted.
 - to verify that the debits and credits balance**
31. Notes Receivable due in 350 days appear on the
- balance sheet in the current assets section**
 - balance sheet in the fixed assets section
 - balance sheet in the current liabilities section
 - income statement as an expense
32. Unearned Fees appear on the
- balance sheet in the current assets section
 - balance sheet as a current liability**
 - balance sheet in the owner's equity section
 - income statement as revenue

33. Which of the following accounts are considered temporary (or nominal) accounts?
- a) Cash, Fees Earned, Unearned Revenues
 - b) Pre-paid expenses, Unearned Revenues, Fees Earned
 - c) Capital Account, Drawing Account, Cash
 - d) Drawing Account, Fees Earned, Rent Expense**

34. The following accounts were taken from the Adjusted Trial Balance columns of the work sheet:

Accumulated Depreciation	\$ 2,300
Fees Earned	14,700
Depreciation Expense	1,300
Insurance Expense	200
Prepaid Insurance	4,800
Supplies	900
Supplies Expenses	3,800

Net income for the period is

- a. \$1,400
- b. \$9,400**
- c. \$14,700
- d. \$7,100

35. A fiscal year

- a. ordinarily begins on the first day of a month and ends on the last day of the following twelfth month**
- b. for a business is determined by the federal government
- c. always begins on January 1 and ends on December 31 of the same year
- d. should end at the height of the business's annual operating cycle

NACM Financial Accounting
Exam One – Answer Key

36. When the end-of-period spreadsheet is complete, the adjustment columns should have
- total credits greater than total debits if a net income was earned
 - total debits greater than total credits if a net loss was incurred
 - total debits greater than total credits if a net income was earned
 - total debits are equal to total credits**
37. Which of the accounts below would appear in the Balance Sheet columns of the end-of - period spreadsheet?
- Service Revenue
 - Prepaid Rent**
 - Supplies Expense
 - None are correct
38. The end-of-period spreadsheet at the end of July has \$5,350 in the Balance Sheet credit column for Accumulated Depreciation. The end-of-period spreadsheet at the end of August has \$6,700 in the Balance Sheet credit column for Accumulated Depreciation. What was the amount of the depreciation expense adjustment for the month of August?
- amount cannot be determined
 - \$6,700
 - \$5,350
 - \$1,350**
39. After all of the account balances have been extended to the Balance Sheet columns of the work sheet, the totals of the debit and credit columns are \$37,875 and \$32,735, respectively. What is the amount of net income or net loss for the period?
- \$5,140 net income**
 - \$37,875 net loss
 - \$5,140 net loss
 - \$32,735 net income

NACM Financial Accounting
Exam One – Answer Key

40. After all of the account balances have been extended to the Income Statement columns of the work sheet, the totals of the debit and credit columns are \$77,500 and \$85,300, respectively. What is the amount of the net income or net loss for the period?

- a. **\$7,800 net income**
- b. \$7,800 net loss
- c. \$85,300 net income
- d. \$77,500 net loss

41. A(n) _____ system is the methods and procedures for collecting, classifying, summarizing and reporting a business's financial and operating information.

- a. **accounting**
- b. fiduciary
- c. operations
- d. auditing

42. The primary ledger containing all the balance sheet and income statement accounts is the

- a. **general ledger**
- b. creditors ledger
- c. customers ledger
- d. subsidiary ledger

43. The subsidiary ledger that includes customer account activity is called the

- a. asset ledger
- b. accounts payable ledger
- c. expense ledger
- d. **accounts receivable ledger**

44. When there are a large number of individual accounts with a common characteristic, it is common to place them in a separate ledger called a(n)

- a. accounts receivable ledger
- b. accounts payable ledger
- c. creditors ledger
- d. **subsidiary ledger**

45. Which of the following transactions is recorded in the purchases journal?
- a. **purchase of store supplies on account**
 - b. return of damaged office equipment
 - c. purchase of store supplies for cash
 - d. purchase of office equipment for cash
46. Which of the following is recorded in the general journal?
- a. rendering services for cash
 - b. purchases of supplies on account
 - c. rendering services on account
 - d. **closing entries**
47. Which of the following is recorded in the cash receipts journal?
- a. cash withdrawn by the owner
 - b. cash purchase of equipment
 - c. **cash received on customer's account**
 - d. adjusting entry for depreciation
48. An owner transfers a personal automobile to the company with a fair market value of \$12,000. The entry will be made in the
- a. purchases journal
 - b. cash payments journal
 - c. cash receipts journal
 - d. **general journal**
49. If a company uses special journals
- a. it must have one for cash, receivables, and payables
 - b. it may have no more than four
 - c. **the quantity and design depend on the needs of the company**
 - d. no matter the quantity, the design must comply with the FASB requirements

50. Which of the following is **not** an advantage of a computerized system over a manual system?
- a. transactions are recorded and posted at the same time
 - b. accuracy is usually better with a computerized system
 - c. current balances are always available
 - d. **internal controls are optional to the computerized system**