

Unit 1 Exam (Chapters 1-3 Review)

1. When revenues exceed expenses, which of the following is **true**?
 - a. a net income occurs
 - b. a net loss occurs
 - c. assets equal liabilities
 - d. liabilities are decreased

2. Which of the following is a liability?
 - a. Accounts Receivable
 - b. Unearned Service Revenue
 - c. Service Revenue
 - d. Dividends

3. Assets, liabilities, and stockholders' equity are found on what financial statement?
 - a. Income Statement
 - b. Statement of Cash Flows
 - c. Balance Sheet
 - d. Retained Earnings Statement

4. If total liabilities decreased by \$75,000 and stockholders' equity increased by \$15,000 during a period of time, then total assets must change by what amount and direction during that same period?
 - a. \$60,000 decrease
 - b. \$60,000 increase
 - c. \$75,000 increase
 - d. \$90,000 increase

*****Use the following information to answer the questions for 5 and 6**

Bell Company compiled the following financial information as of December 31, 20XX:

Service revenue	\$2,000,000
Common stock	500,000
Accounts payable	300,000
Notes payable	400,000
Operating expenses	1,000,000
Cash	280,000
Supplies	20,000
Unearned revenue	10,000
Dividends	80,000
Inventory	40,000
Land	800,000
Equipment	400,000
Retained earnings, 1/1/20XX	600,000

5. Bell's assets on December 31, 20XX are
 - a. \$1,880,000.
 - b. \$1,540,000.
 - c. \$2,140,000.
 - d. \$1,480,000.

6. Bell's liabilities on December 31, 20XX are
- \$710,000
 - \$700,000
 - \$310,000
 - \$790,000
7. As of January 1, 20XX, Grandma M's Homemade Ice Cream Shop had a balance in its retained earnings account of \$20,000. During the year Grandma M's had revenues of \$100,000 and expenses of \$105,000. In addition, the business paid cash dividends of \$2,000. What is the balance in Retained Earnings at December 31, 20XX for Grandma M's Homemade Ice Cream Shop?
- \$23,000
 - \$13,000
 - \$17,000
 - \$27,000
8. What is the principle that indicates that when assets are acquired, they should be recorded at the amount paid for them?
- historical cost principle.
 - fair value principle.
 - full disclosure principle.
 - consistency principle.
9. Which accounting assumption assumes that an enterprise will continue in operation long enough to carry out its existing objectives and commitments?
- Monetary unit assumption
 - Economic entity assumption
 - Periodicity assumption
 - Going concern assumption
10. The periodicity assumption states
- the business will remain in operation for the foreseeable future.
 - the life of a business can be divided into artificial time periods and that useful reports covering those periods can be prepared.
 - every economic entity can be separately identified and accounted for.
 - only those things that can be expressed in money are included in the accounting records.
11. MZ company has three factories that cost \$1,000,000. The current market value of the factories is \$1,500,000. The factories will be reported as assets at
- \$1,500,000
 - \$500,000
 - \$1,000,000
 - \$2,500,000
12. Payment of a \$2,000 Accounts Payable
- decreases an asset \$2,000; decreases a liability \$2,000
 - increases an asset \$2,000; decreases an asset \$2,000
 - increases a liability \$2,000; decreases stockholders' equity \$2,000
 - decreases an asset \$2,000; decreases stockholders' equity \$2,000

13. Debit means
- an account is increasing.
 - the right side of an account.
 - an account is decreasing.
 - the left side of an account.
14. Which of the following is an asset?
- Dividends
 - Common Stock
 - Service Revenue
 - Accounts Receivable
15. Which of the following accounts is increased with a debit?
- Accounts Payable
 - Common Stock
 - Service Revenue
 - Inventory
16. The first step in the recording process is to
- prepare financial statements.
 - analyze the transaction in terms of its effect on the accounts.
 - post to a journal.
 - prepare a trial balance.
17. Which of the following is not classified properly as a current asset?
- Supplies
 - Short-term Investments
 - A fund to be used to purchase a building within the next year
 - A receivable from the sale of an asset to be collected in two years
18. Which of the following categories are not found on a classified balance sheet?
- Long-term investments
 - Property, Plant, and Equipment
 - Long-Term Liabilities
 - Service Revenue
19. At August 1, 20XX, Longwood Inc. had a Cash balance of \$50,000. During the month, the company had cash receipts of \$150,000. In addition, Longwood Inc. had cash disbursements (payments) of \$180,000. At November 30, 2018, the Cash balance is
- \$80,000 debit
 - \$80,000 credit
 - \$20,000 debit
 - \$20,000 credit

20. A building costing \$400,000 is purchased by paying \$150,000 cash and signing a note payable for the remainder. The journal entry should include a
- a. debit to Notes Payable.
 - b. debit to Cash.
 - c. credit to Notes Receivable.
 - d. debit to Building.

Solutions

1. **A**
2. **B**
3. **C**
4. **A**
5. **B**
6. **A**
7. **B**
8. **A**
9. **D**
10. **B**
11. **C**
12. **A**
13. **D**
14. **D**
15. **D**
16. **B**
17. **D**
18. **D**
19. **C**
20. **D**