

Assessment

The Accounting Cycle ***Revised Edition***

The objectives of this book are:

- To discuss record keeping systems
- To review the vocabulary of accounting
- To explain making adjusting and closing entries
- To discuss accounting decision making



Assessment Questions for *The Accounting Cycle, Revised Edition*

Select the best response.

1. A principle of accounting is that all business assets should be recorded:
 - A. At cost
 - B. At market value
2. The profit or loss of a business based on *earnings less expenses* is the:
 - A. Balance sheet
 - B. Income statement
 - C. Liabilities
3. Capital and withdrawals are the two accounts that make up:
 - A. Assets
 - B. Liabilities
 - C. Owner's equity
4. In accrual accounting, revenue is recorded when it is:
 - A. Earned
 - B. Received
5. The term *on account* means:
 - A. On credit
 - B. Payment not received
 - C. Either of the above
6. You should consider using a single-entry system if each month you write fewer than:
 - A. 20 checks
 - B. 30 checks
 - C. 40 checks
 - D. 50 checks

7. In a double-entry system, the balance sheet equation must be in balance after every transaction.
- A. True
 - B. False
8. In ledger books and journals, *debit* always means:
- A. Right
 - B. Left
9. Debits and credits appear in asset accounts, but the ending balance is usually a:
- A. Credit
 - B. Debit
10. The book of original entry is known as the:
- A. Ledger
 - B. Balance sheet
 - C. Journal
 - D. Income statement
11. The accrual method requires that money paid in advance for a service not yet performed is:
- A. A liability
 - B. Revenue
12. The difference between the cost and the depreciation of an item is known as:
- A. Accumulated depreciation
 - B. Book value
 - C. Accrual value
 - D. Adjusted asset
13. Revenue entries that may be adjusted are:
- A. Cash
 - B. Accounts receivable
 - C. Unearned revenue
 - D. A and B
 - E. B and C

14. Items in permanent balance sheet accounts are:
- A. Revenues
 - B. Expenses
 - C. Withdrawals
 - D. Liabilities
15. Which account needs to be closed at the end of the month?
- A. Salaries payable
 - B. Cash
 - C. Unearned revenue
 - D. Expense
16. Which account would appear on the post-closing trial balance?
- A. Assets
 - B. Withdrawals
 - C. Rent expense
 - D. Wages expense
17. The purpose of the post-closing trial balance is to verify that:
- A. All entries have been made.
 - B. All temporary accounts (Revenue, Expenses, Withdrawals) are closed.
 - C. Revenue and expenses balance.
 - D. Assets exceed liabilities.
18. Net income or loss must be added to the balance sheet if the sheet is to balance.
- A. True
 - B. False
19. Items on a balance sheet that are called intangibles include:
- A. Owner's equity
 - B. Franchises
 - C. Investments
 - D. Notes payable

20. In a new business, a good way to categorize expenses is to use the list provided by the IRS.
- A. True
 - B. False
21. Cash, investments, and land are known as:
- A. Revenue
 - B. Liabilities
 - C. Assets
 - D. Equity
22. On the balance sheet, items such as cash, withdrawals, and office supplies should be recorded as:
- A. Debits
 - B. Credits
23. If *lower of cost or market* determines price of inventory, then cost is used if market price:
- A. Goes higher than cost
 - B. Becomes lower than cost
24. If four lighting fixtures cost \$400, \$500, \$600, and \$700, the weighted average cost is:
- A. \$550
 - B. \$562.50
 - C. \$600
 - D. \$625.50
25. For tax purposes, if the purchase price of inventory is increasing, you should figure inventory on the basis of:
- A. First in, first out
 - B. Last in, first out
 - C. Weighted average

Answer Key for The Accounting Cycle, Revised Edition

Recommended response (Corresponding workbook page)

1. A (ix)	6. B (25)	11. A (50)	16. A (63)	21. C (81)
2. B (3, 7)	7. A (27)	12. B (53)	17. B (70)	22. A (107)
3. C (9)	8. B (34)	13. E (49)	18. A (64)	23. A (92)
4. A (15)	9. B (36)	14. D (65)	19. B (81)	24. A (93)
5. C (23)	10. C (3)	15. D (64)	20. A (82)	25. B (95)