Accounting Quiz Bank

Almost 700 Financial Accounting Questions Answers and Explanations Inspired from the iOS App: Accounting Quiz Game

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John Gillingham CPA

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Pro Tips:

- Get the Accounting Quiz Game for iPhone for fun and fast results.
- Share with up to 3 friends (all good by me, John CPA) and work together.
- Subscribe at AccountingPlay.com for free resources.
- Save energy! Instead of printing the quiz, use scrap paper or other device to record answers and read the quiz from the PDF on tablet, phone, or computer. This way you can record your answers over multiple attempts and make notes.
- Record your time.
- As you get better, use the Answers & Explanations section to test yourself by covering the correct answer as you work down the questions. This forces you to memorize the answer, rather than choose from the multiple choice options.

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General Principles Questions

1. Financial relevance is related to:
    a. Predictive value
    b. Replacement cost
    c. Net income
    d. Earnings

2. Converting noncash resources to cash:
    a. Recognition
    b. Gains
    c. Realization
    d. Revenues

3. Enhances relevance and faithful representation:
    a. Recognition
    b. Coolness
    c. Realization
    d. Comparability

4. Process of recording an item:
    a. Recognition
    e. Realization
    f. Gains
    g. Revenues

5. Amount obtainable in orderly liquidation:
    a. Fair market value
    b. Lower of cost or market
    c. Comparable sales
    d. Current market value

6. Quality of information that may be used to forecast:
    a. Predictive value
    b. Timeliness
    c. Feedback value
    d. Constraints

7. Which of the following is not a stakeholder?
    a. Owners
    b. Lenders
    c. Employees
    d. Pets

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8. Who may certify financial statements?
   a. External CPA auditors
   b. External CFA auditors
   c. Accountants
   d. Managers

9. What does GAAP stand for?
   a. Generally Accepted Auditing Practices
   b. Generally Accepted Accounting Practices
   c. Generally Accepted Accounting Principles
   d. Generally Accepted Auditing Principles

10. What does IFRS stand for?
    a. Interim Financial Reporting Standards
    b. Inner Finance Reporting Standards
    c. Internal Financial Reporting Standards
    d. International Financial Reporting Standards

11. What is another name for accrual accounting?
    a. Cash basis
    b. Double entry
    c. Governmental
    d. Trust

12. Who is managerial accounting designed for?
    a. Internal users
    b. External users
    c. Investors
    d. Government

13. Accounting should be:
    a. Complicated
    b. Useful
    c. Really goood looking
    d. Epic

14. Accounting information should benefit:
    a. Yo mama
    b. Only tax authorities
    c. Stakeholders
    d. Only businesses

15. What is the minimum of accounts affected for each transaction in double entry accounting?
    a. One
    b. Two
    c. Three
    d. Four

16. What accounting system records expense when cash is paid?
    a. Accrual
    b. Hot system
    c. Governmental
    d. Cash basis

17. What is typical a motivation for very small businesses to perform accounting?
    a. Taxes
    b. 263A Costs
    c. 10K filings
    d. Altman Z score

18. What financial statement represents the checks and balances created by the double entry system?
    a. Owners' equity
    b. Cash flows
    c. Balance sheet
    d. Notes

19. Revenue earned for services will be recorded when cash is received under what accounting methodology?
    a. Accrual
    b. Double entry
    c. Governmental
    d. Cash basis

20. A major problem with cash basis accounting:
    a. Cash basis is more simple than accrual basis
    b. Cash basis is less costly than accrual basis
    c. Revenue and associated expenses may not match up in the same period
    d. It is based around cash inflows and outflows

21. Cash basis accounting is permitted under Generally Accepted Accounting Principles in the United States (US-GAAP):
    a. True
    b. False

22. Accrual accounting is permitted under Generally Accepted Accounting Principles in the United States (US-GAAP):
    a. True
    b. False

23. Which of the following is/are advantages to accrual accounting?
    a. Provides checks and balances
    b. Information can be used to complete a set of financial statements
    c. Preferred methodology for investors and lenders
    d. All of the above

24. How might accrual accounting take into account liabilities at year end?
    a. Accrued payroll
    b. Cost of goods sold
    c. Bank reconciliation
    d. Inventory

25. Under the accrual method, when must revenue be recognized?
    a. When cash is received
    b. When it is earned and realizable
    c. When expense in incurred
    d. When cash is paid for expenses

26. Under the accrual method, when must expense be recognized?
    a. When visualized
    b. When cash is paid
    c. When incurred
    d. When perceived

27. What is capital appreciation for stocks?
    a. Dividend payments
    b. Stock proceeds
    c. Increase in value without sale
    d. Stock options

28. What is one way to define stakeholders?
    a. Certified Public Accountant
    b. Users of financial information
    c. Chartered Financial Analyst
    d. Boss

29. Which of the following is an example of an operating entity?
    a. Corporation
    b. Charity
    c. Trust
    d. All of the above

30. What financial statement reports revenue and expense for a period of time?
    a. Balance sheet
    b. Income statement
    c. Statement of shareholders' equity
    d. Notes to the financial statements

31. What financial statement reports assets, liabilities, and shareholders' equity at a specific point in time?
    a. Balance sheet
    b. Income statement
    c. Statement of shareholders' Equity
    d. Notes to the financial statements

32. What accounting method reports revenue when earned and realizable?
    a. Cash basis
    b. Accrual
    c. Double entry
    d. All of the above

33. Under accrual accounting, when is expense reported?
    a. When negotiated
    b. When agreed
    c. When incurred
    d. When paid

34. Under the cash basis method of accounting, when is revenue reported?
    a. When goods are shipped
    b. When services are rendered
    c. When sale is made
    d. When cash is received

35. Under the cash basis method of accounting, when is expense reported?
    a. When cash is paid
    b. Expense is incurred
    c. Prepaids used
    d. All of the above

36. Reporting related income and expenses in the same period mostly relates to:
    a. Cash basis
    b. Matching principle
    c. Monetary assumption
    d. Bling basis

37. Revenue - Expense =
    a. Change in cash
    b. Unrealized gain
    c. Profit or loss
    d. Accumulated depreciation

38. Assets = Liabilities + ?
    a. Revenue
    b. Expense
    c. Cash
    d. Equity

39. Equity = Liabilities - ?
    a. Assets
    b. Revenue
    c. Expense
    d. Cash

40. Liabilities = Assets - ?
    a. Assets
    b. Equity
    c. Expense
    d. Cash

41. Economic resources reported on the balance sheet are known as?
    a. Revenue
    b. Expenses
    c. Assets
    d. Liabilities

42. Amounts owed on the balance sheet are known as?
    a. Equity
    b. Expenses
    c. Assets
    d. Liabilities

43. How are assets typically reported on the balance sheet?
    a. Cost
    b. Fair market value
    c. Estimated selling price
    d. Estimated proceeds

44. What relates to the principle of conservatism?
    a. Reporting assets at cost
    b. Error on side of revenue understatement
    c. Error on side of expense overstatement
    d. All of the above

45. What principle would separate business from personal assets?
    a. Economic Entity
    b. Monetary Unit
    c. Going Concern
    d. Full Disclosure

46. What principle allows businesses to ignore property appreciation?
    a. Economic Entity
    b. Cost
    c. Going Concern
    d. Full Disclosure

47. How could a gain be recognized on land appreciation?
    a. Via appraisal
    b. Via audit
    c. Via sale
    d. All of the above

48. What principle would require notes to the financial statements?
    a. Materiality
    b. Conservatism
    c. Monetary Unit
    d. Full Disclosure

49. How might a company justify violating an accounting principle?
    a. Materiality
    b. Conservatism
    c. Monetary Unit
    d. Full Disclosure

50. What might allow a company to justify rounding financial statement numbers?
    a. Conservatism
    b. Materiality
    c. Monetary Unit
    d. Full Disclosure

51. What principle assumes a company will last long enough to accomplish financial goals?
    a. Conservatism
    b. Materiality
    c. Going Concern
    d. Full Disclosure

52. What does "going concern" loosely mean?
    a. Will the company make a profit?
    b. Will the company go public?
    c. Will the company issue bonds?
    d. Will the company stay in business?

53. What might cause a company to not be a going concern?
    a. Lawsuit
    b. Product obsolescence
    c. Competition
    d. All of the above

54. Who might issue a "going concern" statement?
    a. CPA auditor
    b. Controller
    c. Board of directors
    d. All of the above

55. What principle might require writing down inventory that has decreased in value?
    a. Materiality
    b. Conservatism
    c. Going Concern
    d. Full Disclosure

56. What might require that a company record rent expense monthly, even though they paid a year in advance?
    a. Materiality
    b. Conservatism
    c. Matching
    d. Full Disclosure

57. What principle is accrual accounting based on?
    a. Materiality
    b. Conservatism
    c. Full Disclosure
    d. Matching

58. What principle may allow a company to expense a very low cost asset, even though it would otherwise be capitalized under GAAP?
    a. Materiality
    b. Conservatism
    c. Matching
    d. Full Disclosure

59. What could require a company to expense research costs?
    a. Materiality
    b. Conservatism
    c. Matching
    d. Full Disclosure

60. What might relate to the hierarchy of US-GAAP?
    a. AICPA
    b. APB
    c. FASB
    d. All of the above

General Principles Answers & Explanations

1. Financial relevance is related to:
    a. Predictive value

Looking towards the future

2. Converting noncash resources to cash:
    c. Realization

For example: collecting on accounts receivable

3. Enhances relevance and faithful representation:
    d. Comparability

Financial statements are similar in format

4. Process of recording an item:
    a. Recognition

Before realization

5. Amount obtainable in orderly liquidation:
    d. Current market value

Utilizes the conservativism principle

6. Quality of information that may be used to forecast:
    a. Predictive value

Looking towards the future

7. Which of the following is not a stakeholder?
    d. Pets

Stakeholders are users of financial information

8. Who may certify financial statements?
    a. External CPA auditors

Outside Certified Public Accountants may audit and certify financial statements

9. What does GAAP stand for?
    c. Generally Accepted Accounting Principles

US-GAAP largely governs US based accounting

10. What does IFRS stand for?
    d. International Financial Reporting Standards

IFRS largely governs non-US based accounting

11. What is another name for accrual accounting?
    b. Double entry

Accrual accounting requires two entries for each transaction

12. Who is managerial accounting designed for?
    a. Internal users

Managerial accounting assists users in business decision making

13. Accounting should be:
    b. Useful

Accounting is designed around the needs of stakeholders

14. Accounting information should benefit:
    c. Stakeholders

Several different users benefit from accounting information

15. What is the minimum of accounts affected for each transaction in double entry accounting?
    b. Two

Double entry accounting requires more than one account

16. What accounting system records expense when cash is paid?
    d. Cash basis

Cash basis records revenue when cash is received

17. What is typical a motivation for very small businesses to perform accounting?
    a. Taxes

Even very small businesses can have federal, state, and local tax to file and pay

18. What financial statement represents the checks and balances created by the double entry system?
    b. Balance sheet

Assets = Liabilities + Owners' Equity (the accounting equation) is reported on the balance sheet

19. Revenue earned for services will be recorded when cash is received under what accounting methodology?
    d. Cash basis

Recording revenue based on cash received is not a US-GAAP accepted methodology

20. A major problem with cash basis accounting:
    c. Revenue and associated expenses may not match up in the same period

Cash basis accounting is generally more simple than accrual basis accounting

21. Cash basis accounting is permitted under Generally Accepted Accounting Principles in the United States (US-GAAP):
    b. False

Accrual accounting is permitted under US-GAAP and IFRS

22. Accrual accounting is permitted under Generally Accepted Accounting Principles in the United States (US-GAAP):
    a. True

Cash basis accounting is not permitted under US-GAAP or IFRS

23. Which of the following is/are advantages to accrual accounting?
    d. All of the above: Provides checks and balances, Information can be used to complete a set of financial statements, Preferred methodology for investors and lenders

Double entry accounting provides several different benefits

24. How might accrual accounting take into account liabilities at year end?
    a. Accrued payroll

Accrual accounting matches the expenses to the proper time period (periodicity)

25. Under the accrual method, when must revenue be recognized?
    b. When it is earned and realizable

Recognize revenue when services have been performed, goods have been shipped, and payment is expected

26. Under the accrual method, when must expense be recognized?
    c. When incurred

Expense under the accrual method should appear in the period it "happens" (incurred) rather than when the bill comes in the mail

27. What is capital appreciation for stocks?
    c. Increase in value without sale

Capital appreciation generally refers to an increase in value

28. What is one way to define stakeholders?
    b. Users of financial information

Stakeholders include those who are users of financial information: both internal and external to the business

29. Which of the following is an example of an operating entity?
    d. All of the above: Corporation, Charity, Trust

Operating entities exist in a variety of forms

30. What financial statement reports revenue and expense for a period of time?
    b. Income statement

The income statement reports business revenue and expense activity for a period of time

31. What financial statement reports assets, liabilities, and shareholders' equity at a specific point in time?
    a. Balance sheet

The balance sheet reports assets, liabilities, and shareholders' equity at a specific point in time

32. What accounting method reports revenue when earned and realizable?
    b. Accrual

Accrual accounting reports revenue when earned and realizable and cash basis accounting may still be prepared using the double entry system

33. Under accrual accounting, when is expense reported?
    c. When incurred

Accrual accounting reports expense when incurred, such as when utilities are used, rather than paid for in cash later

34. Under the cash basis method of accounting, when is revenue reported?
    d. When cash is received

Cash basis accounting reports revenue when cash is received

35. Under the cash basis method of accounting, when is expense reported?
    a. When cash is paid

Cash basis accounting reports expense when cash is paid

36. Reporting related income and expenses in the same period mostly relates to:
    b. Matching principle

Under accrual accounting, related income and expense are reported in the same period

37. Revenue - Expense =
    c. Profit or loss

Revenue - Expense = Profit or loss on the income statement - also referred to as net income or loss

38. Assets = Liabilities + ?
    d. Equity

Assets = Liabilities + Equity forms the basis of the accounting equation which is represented on the balance sheet

39. Equity = Liabilities - ?
    a. Assets

Assets = Liabilities + Equity, also equals Equity = Liabilities - Assets, forms the basis of the accounting equation which is represented on the balance sheet

40. Liabilities = Assets - ?
    b. Equity

Assets = Liabilities + Equity, also equals Liabilities = Assets - Equity, forms the basis of the accounting equation which is represented on the balance sheet

41. Economic resources reported on the balance sheet are known as?
    c. Assets

Assets such as cash and equipment are technically defined as economic resources

42. Amounts owed on the balance sheet are known as?
    d. Liabilities

Liabilities are amounts owed, such as accounts payable and debts

43. How are assets typically reported on the balance sheet?
    a. Cost

Generally assets are reported at cost, which relates to the Conservativism Principle

44. What relates to the principle of conservatism?

    d. All of the above: Reporting assets at cost, Error on side of revenue understatement, Error on side of expense overstatement

Accountants following GAAP practice conservatism where income and expenses are reported accurately and error on revenue understatement and expense overstatement

45. What principle would separate business from personal assets?

    a. Economic Entity

Economic Entity assumes that the business is separate from personal assets

46. What principle allows businesses to ignore property appreciation?

    b. Cost

Cost principle conservatively has accountants record fixed asset purchases at cost instead of potentially subjective values

47. How could a gain be recognized on land appreciation?

    c. Via sale

Land is held at cost until sold, which could create a gain or loss on the sale

48. What principle would require notes to the financial statements?

    d. Full Disclosure

Full Disclosure would require material items to be disclosed in the notes to the financial statements

49. How might a company justify violating an accounting principle?

    a. Materiality

Materiality allows accountants to ignore certain transactions that are not material to the overall financial statements, such as rounding

50. What might allow a company to justify rounding financial statement numbers?

    b. Materiality

Materiality allows accountants to ignore certain transactions that are not material to the overall financial statements, such as rounding

51. What principle assumes a company will last long enough to accomplish financial goals?

    c. Going Concern

The Going Concern principle dictates that a business will continue to operate to meet objectives

52. What does "going concern" loosely mean?

    d. Will the company stay in business?

"Going concern" generally means "stay in business" and "not a going concern" generally means going out of business

53. What might cause a company to not be a going concern?

    d. All of the above: Lawsuit, Product obsolescence, Competition

"Going concern" generally means "stay in business" and "not a going concern" generally means going out of business

54. Who might issue a "going concern" statement?
    a. CPA auditor

CPA auditors are generally required to issue a statement if a company is at risk of going out of business, or no longer be a "going concern"

55. What principle might require writing down inventory that has decreased in value?
    b. Conservatism

Inventory may be required to be reduced in value under the Conservativism principle, so as to not overstate inventory values if they have declined since purchase

56. What might require that a company record rent expense monthly, even though they paid a year in advance?
    c. Matching

Under accrual accounting, related income and expense are reported in the same period

57. What principle is accrual accounting based on?
    d. Matching

Under accrual accounting, related income and expense are reported in the same period which is referred to as matching

58. What principle may allow a company to expense a very low cost asset, even though it would otherwise be capitalized under GAAP?
    a. Materiality

Materiality allows accountants to ignore certain transactions that are not significantly material to the overall financial statements, such as expensing a low cost item which should technically be capitalized

59. What could require a company to expense research costs?
    b. Conservatism

Expensing, rather than capitalizing certain costs is an example of Conservatism, as it would lower the current period profit

60. What might relate to the hierarchy of US-GAAP?
    e. All of the above: AICPA, APB, FASB

US Generally Accepted Accounting Principles are based on several different organizations and opinions

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Account Types Questions

1. Bonds payable, due in year 8, classification:
    a. Noncurrent liability
    b. Current asset
    c. Noncurrent asset
    d. Contra equity

2. Treasury stock, classification:
    a. Noncurrent liability
    b. Contra equity
    c. Noncurrent asset
    d. Current asset

3. Accounts payable, classification:
    a. Noncurrent liability
    b. Contra equity
    c. Current liability
    d. Contra asset

4. Sales discounts, classification:
    a. Noncurrent liability
    b. Contra equity
    c. Current liability
    d. Contra revenue

5. Notes payable, due in nine months, classification:
    a. Current liability
    b. Noncurrent asset
    c. Contra asset
    d. Contra revenue

6. Inventory, classification:
    a. Noncurrent liability
    b. Current asset
    c. Current liability
    d. Contra asset

7. Accounts receivable, classification:
    a. Owners' equity
    b. Noncurrent asset
    c. Current asset
    d. Contra asset

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8. Common stock, classification:
    a. Noncurrent liability
    b. Contra asset
    c. Contra revenue
    d. Owners' equity

9. Cost of goods sold, classification:
    a. Expense
    b. Noncurrent asset
    c. Contra asset
    d. Noncurrent asset

10. Allowance for uncollectible accounts, classification:
    a. Owners' equity
    b. Contra asset
    c. Current asset
    d. Noncurrent liability

11. Which of the following is an asset?
    a. Accounts payable
    b. Prepaid expense
    c. Retained earnings
    d. Bonds payable

12. Which of the following is a liability?
    a. Prepaid expense
    b. Interest
    c. Accrued expense
    d. Amortization

13. Which is an equity account?
    a. Bonds
    b. Equipment
    c. Depreciation
    d. Common stock

14. What is the purpose of the notes to the financial statements?
    a. Cash flow reporting
    b. Change in retained earnings
    c. Sum of all transaction
    d. Full disclosure

15. What two accounts are affected when a business receives cash for a loan?
    a. Cash, Common stock
    b. Cash, Notes payable
    c. Cash, Retained earnings
    d. Bitcoin, Treasury stock

16. Please classify the following account: Bank CD
    a. Asset
    b. Liability
    c. Equity
    d. Revenue

17. Please classify the following account: Prepaid expense
    a. Asset
    b. Revenue
    c. Expense
    d. Equity

18. Please classify the following account: Allowance for doubtful accounts
    a. Asset
    b. Contra asset
    c. Liability
    d. Contra liability

19. Please classify the following account:
    a. Accumulated depreciation
    b. Liability
    c. Contra liability
    d. Asset
    e. Contra asset

20. Generally define current assets:
    a. Assets to be used in a year or less
    b. Assets to be used in a year or more
    c. Assets to be used in a month
    d. Liabilities due in less than a year

21. Generally define long-term assets:
    a. Assets to last less than a year
    b. Assets to last more than a year
    c. Liabilities due in less than a year
    d. Liabilities due greater than a year

22. Generally define current liabilities:
    a. Bonds
    b. Stocks
    c. Liabilities to be paid in one year or less
    d. Liabilities to be paid in one year or more

23. Generally define long-term liabilities:
    a. Assets to be used in a year or less
    b. Assets to be used in a year or more
    c. Liabilities to be paid in one year or less
    d. Liabilities to be paid in one year or more

24. Please define the following account: Accounts payable
    a. Money a company owes for goods and services
    b. Money a company owes for long-term borrowing
    c. Money that is owed to the company
    d. Money in the bank

25. Please classify the following account: Notes payable
    a. Asset
    b. Liability
    c. Equity
    d. Revenue

26. Please classify the following account: Accrued expenses
    a. Asset
    b. Liability
    c. Equity
    d. Revenue

27. Please classify the following account: Deferred revenue
    a. Asset
    b. Liability
    c. Equity
    d. Revenue

28. Please classify the following account: Bonds payable
    a. Asset
    b. Liability
    c. Equity
    d. Revenue

29. Please classify the following account: Bond discount
    a. Asset
    b. Contra asset
    c. Liability
    d. Contra liability

30. Please classify the following account: Bond premium
    a. Asset
    b. Liability
    c. Contra liability
    d. Contra equity

31. Please classify the following account: Common stock
    a. Revenue
    b. Liability
    c. Equity
    d. Expense

32. Please classify the following account: Common stock owned
    a. Asset
    b. Liability
    c. Revenue
    d. Expense

33. Please classify the following account: Additional paid-in capital
    a. Revenue
    b. Liability
    c. Equity
    d. Expense

34. Please classify the following account: Retained earnings
    a. Revenue
    b. Liability
    c. Equity
    d. Expense

35. Please classify the following account: Treasury stock
    a. Asset
    b. Contra asset
    c. Contra liability
    d. Contra equity

36. Please classify the following account: Sales
    a. Revenue
    b. Expense
    c. Asset
    d. Liability

37. Please classify the following account for an investment firm: Interest income
    a. Revenue
    b. Expense
    c. Asset
    d. Liability

38. Please classify the following account: Extraordinary income
    a. Revenue
    b. Expense
    c. Asset
    d. Liability

39. Please classify the following account: Accounts receivable
    a. Asset
    b. Liability
    c. Equity
    d. Revenue

40. Please classify the following account: Property, plant, & equipment
    a. Asset
    b. Liability
    c. Equity
    d. Revenue

41. Please classify the following account: Meals & entertainment
    a. Asset
    b. Liability
    c. Revenue
    d. Expense

42. Please classify the following account: Cost of goods sold
    a. Asset
    b. Liability
    c. Revenue
    d. Expense

43. Please classify the following account: Depreciation
    a. Asset
    b. Liability
    c. Revenue
    d. Expense

44. Please classify the following account: Capital improvement
    a. Asset
    b. Liability
    c. Equity
    d. Revenue

45. Please classify the following account: General repairs
    a. Asset
    b. Liability
    c. Revenue
    d. Expense

Account Types Answers & Explanations

1. Bonds payable, due in year 8, classification:
   a. Noncurrent liability

Think Balance Sheet…

2. Treasury stock, classification:
   b. Contra equity

Think Balance Sheet…

3. Accounts payable, classification:
   c. Current liability

Think Balance Sheet…

4. Sales discounts, classification:
   d. Contra revenue

Think Income Statement…

5. Notes payable, due in nine months, classification:
   a. Current liability

Think Balance Sheet…

6. Inventory, classification:
   b. Current asset

Think Balance Sheet…

7. Accounts receivable, classification:
   c. Current asset

Think Balance Sheet…

8. Common stock, classification:
   d. Owners' equity

Think Balance Sheet…

9. Cost of goods sold, classification:
   a. Expense

Think Income Statement…

10. Allowance for uncollectible accounts, classification:
    b. Contra asset

Think Balance Sheet…

11. Which of the following is an asset?
    b. Prepaid expense

Prepaid expensed are expenses paid in advance

12. Which of the following is a liability?
    c. Accrued expense

Accrued expenses are expenses incurred, but not yet paid for, such as accrued wages

13. Which is an equity account?
    d. Common stock

Common equity accounts: common stock, retained earnings

14. What is the purpose of the notes to the financial statements?
    d. Full disclosure

The notes disclose items that cannot be explained in the financial statements alone

15. What two accounts are affected when a business receives cash for a loan?
    b. Cash, Notes payable

Cash is cash and loans are recorded as liabilities

16. Please classify the following account: Bank CD
    a. Asset

Cash is an asset appearing on the balance sheet

17. Please classify the following account: Prepaid expense
    a. Asset

Prepaid expense (expense items paid in advanced, not yet used) is an asset appearing on the balance sheet

18. Please classify the following account: Allowance for doubtful accounts
    b. Contra asset

Allowance for doubtful accounts (used for estimated uncollectible sales) is a contra asset appearing on the balance sheet

19. Please classify the following account: Accumulated depreciation
    d. Contra asset

Accumulated depreciation (used for asset depreciation) is a contra asset appearing on the balance sheet

20. Generally define current assets:
    a. Assets to be used in a year or less

Current assets are generally to be used or converted to cash within a year or less

21. Generally define long-term assets:
    b. Assets to last more than a year

Long-term assets are assets expected to last generally more than one year

22. Generally define current liabilities:
    c. Liabilities to be paid in one year or less

Current liabilities are obligations generally due in one year or less

23. Generally define long-term liabilities:
    d. Liabilities to be paid in one year or more

Long-term liabilities are generally the portion of liabilities payable in a year or more

24. Please define the following account: Accounts payable
    a. Money a company owes for goods and services

Accounts payable (AP) is money owed to vendors and the like, for goods provided and services performed

25. Please classify the following account: Notes payable
    b. Liability

Notes payable (debt from money borrowed) is a liability appearing on the balance sheet

26. Please classify the following account: Accrued expenses
    b. Liability

Accrued expenses (expenses incurred, not yet paid for) is a liability appearing on the balance sheet

27. Please classify the following account: Deferred revenue
    b. Liability

Deferred revenue (cash received before goods or services delivered) is a liability appearing on the balance sheet

28. Please classify the following account: Bonds payable
    b. Liability

Bonds payable (specific type of borrowing) is a liability appearing on the balance sheet

29. Please classify the following account: Bond discount
    d. Contra liability

Bond discount is a contra liability account which serves to account for cash borrowing via bond issues

30. Please classify the following account: Bond premium
    b. Liability

Bond premium is a liability account which serves to account for cash borrowing via bond issues

31. Please classify the following account: Common stock
    c. Equity

Common stock issued is an equity account appearing on the balance sheet

32. Please classify the following account: Common stock owned
    a. Asset

Common stock owned may be an asset to the entity

33. Please classify the following account: Additional paid-in capital
    c. Equity

Common stock is an equity account appearing on the balance sheet

34. Please classify the following account: Retained earnings
    c. Equity

Retained earnings (accumulates prior profit / loss and reduces when dividends are paid) is an equity account appearing on the balance sheet

35. Please classify the following account: Treasury stock
    d. Contra equity

Treasury stock (company stock repurchased) is an equity account appearing on the balance sheet

36. Please classify the following account: Sales
    a. Revenue

Sales is a revenue account appearing on the income statement

37. Please classify the following account for an investment firm: Interest income
    a. Revenue

Interest income is a revenue account appearing on the income statement

38. Please classify the following account: Extraordinary income
    a. Revenue

Extraordinary income is a revenue account appearing on the income statement

39. Please classify the following account: Accounts receivable
    a. Asset

Accounts receivable (sales not yet paid for in cash) is an asset appearing on the balance sheet

40. Please classify the following account: Property, plant, & equipment
    a. Asset

Property, plant, & equipment are depreciable assets appearing on the balance sheet

41. Please classify the following account: Meals & entertainment
    d. Expense

Meals & entertainment is an expense account appearing on the income statement

42. Please classify the following account: Cost of goods sold
    d. Expense

Cost of goods sold (COGS) is an expense account appearing on the income statement

43. Please classify the following account: Depreciation
    d. Expense

Depreciation (expensing cost of assets over time) is an expense account appearing on the income statement and uses the offsetting balance sheet account, accumulated depreciation

44. Please classify the following account: Capital improvement
    a. Asset

Capital improvements (significant fixed asset improvements) are assets appearing on the balance sheet, often added to the cost of the related improved asset

45. Please classify the following account: General repairs
    d. Expense

General repairs (repairs not capitalized) is an expense account appearing on the income statement

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Balance Sheet and General Financials Questions

1. What period of time does a balance sheet report?
   a. Specific point in time
   b. Period of time
   c. One year
   d. Three months

2. What is another name for the balance sheet?
   a. Cash flows
   b. Profit & loss
   c. Owners' equity
   d. Statement of financial condition

3. Which of the following is true regarding the balance sheet:
   a. Reports financial position at a point in time
   b. Reports financial performance for a period of time
   c. Reports sources and changes of equity
   d. Reports changes in cash between accounting periods

4. The balance sheet reflects the following formula:
   a. Assets = Liabilities + Equity
   b. Revenue – Expenses
   c. Beginning retained earnings - Ending retained earnings
   d. All of the above

5. A complete set of financial statements contains all of the following, except:
   a. Balance sheet
   b. Statement of managerial performance
   c. Income statement
   d. Statement of shareholders' equity

6. All of the following are assets except:
   a. Cash
   b. Accounts receivable
   c. Accounts payable
   d. Inventory

7. All of the following are liabilities except:
   a. Accounts payable
   b. Notes payable
   c. Bonds payable
   d. Cash

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8. All of the following are equity accounts except:
    a. Accounts receivable
    b. Common stock
    c. Preferred stock
    d. Retained earnings

9. Financial statements are most valuable when presented:
    a. With nice clipart
    b. Separate
    c. Together
    d. With an index

10. What is a benefit of the notes to the financial statements
    a. Show colorful, yet meaningless graphs
    b. Include pie charts about employee dress code
    c. Make certain information hard to find
    d. Disclose accounting details

11. What is the minimum amount of accounts affected with each transaction?
    a. One
    b. Two
    c. Three
    d. Four

12. When cash is received for a corporate investment, what other account is typically increased?
    a. Accounts receivable
    b. Revenue
    c. Common stock
    d. Expense

13. What could be a way to define assets?
    a. Economic resources
    b. Amounts owed
    c. Book value
    d. Cash inflows

14. What could be a way to define liability?
    a. Economic resources
    b. Amounts owed
    c. Book value
    d. Cash outflows

15. Which of the following account type does not appear on the balance sheet?
    a. Assets
    b. Liabilities
    c. Revenue
    d. Equity

16. Cash appears on which financial statement?
    a. Balance sheet
    b. Income statement
    c. Statement of owners' equity
    d. All of the above

17. Which of the following are assets?
    a. Accounts receivable
    b. Inventory
    c. Intangibles
    d. All of the above

18. Which of the following is not an asset?
    a. Deferred revenue
    b. Property, plant, & equipment
    c. Bank CD
    d. Savings

19. Which of the following are liabilities?
    a. Accounts payable
    b. Notes payable
    c. Accrued expenses
    d. All of the above

20. Which of the following are not liabilities?
    a. Accounts payable
    b. Accounts receivable
    c. Notes payable
    d. Bonds payable

21. Which of the following is an equity account?
    a. Intangibles
    b. Inventory
    c. Retained earnings
    d. Accounts receivable

22. Which of the following is not an equity account?
    a. Bonds
    b. Retained earnings
    c. Common stock
    d. Preferred stock

23. Retained earnings accumulate activity from which financial statement?
    a. Balance sheet
    b. Income statement
    c. Statement of owners' equity
    d. All of the above

24. What could increase a liability account?
    a. Receive cash investment
    b. Reacquire stock using cash
    c. Receive a cash loan
    d. All of the above

25. What could increase an equity account?
    a. Profit for the current period
    b. Issue of common stock
    c. Issue of preferred stock
    d. All of the above

25. What could increase an equity account?
    a. Profit for the current period
    b. Issue of common stock
    c. Issue of preferred stock
    d. All of the above

27. What part of a complete set of financial statements may be several pages long?
    a. Balance sheet
    b. Notes
    c. Statement of cash flows
    d. All of the above

28. Income statement results are recorded to what balance sheet account?
    a. Common stock
    b. Additional paid-in capital
    c. Cash
    d. Retained earnings

29. What summarizes all debit and credit transactions in one report?
    a. Trial balance
    b. Balance sheet
    c. Income statement
    d. Notes

30. How are financial statements related?
    a. Ending cash appears on both the balance sheet and cash flow statement
    b. Profit or loss is recorded to retained earnings in the equity section of the balance sheet
    c. The statement of cash flows prepared using the indirect method utilizes changes in balance sheet accounts
    d. All of the above

31. How might a charity refer to the equivalent of a balance sheet?
    a. Bank reconciliation
    b. Statement of financial position
    c. Notes
    d. All of the above

32. What contains the accounting record of all individual transactions?
    a. Balance sheet
    b. General ledger
    c. Income statement
    d. Statement of cash flows

33. What is a common way accountants adjust the financial record?
    a. Bank reconciliations
    b. Closing retained earnings
    c. Journal entries
    d. Declaring dividends

34. What purpose(s) does the trial balance serve?
    a. Summarize unadjusted account balances
    b. Format the accounting record for easy adjustment
    c. Summarize all balance sheet and income statement accounts in one place
    d. All of the above

35. What two financial statements are typically presented first?
    a. Balance sheet, Income statement
    b. Notes, Balance sheet
    c. Statement of shareholders' equity, Income statement
    d. Balance sheet, Statement of cash flows

36. Which one financial statement contains all the financial information a stakeholder could want?
    a. Balance sheet
    b. Income statement
    c. Statement of shareholders' equity
    d. Financial statements should be presented together for maximum usefulness

37. The heading of the balance sheet will specify:
    a. Entity name
    b. Point in time
    c. Financial statement name
    d. All of the above

38. Which of the following may be found on the balance sheet?
    a. Assets
    b. Liabilities
    c. Equity
    d. All of the above

39. Which of the following may be found on the balance sheet?
    a. Assets
    b. Revenue
    c. Expense
    d. Income

40. Which of the following is not a balance sheet account?
    a. Prepaid expense
    b. Revenue
    c. Notes payable
    d. Deferred revenue

41. What is the income statement without the balance sheet?
    a. Salt, yet no pepper
    b. Yin, but no yang
    c. Peanut butter, but no jelly
    d. All of the above

42. What could be a long-term liability?
    a. 90 day CD
    b. 180 day treasury
    c. Bonds due in 10 years
    d. All of the above

43. What might allow a company to have a different interpretation of the "due in a year or more" general long-term liability classification?
    a. Accrual accounting
    b. Cash basis accounting
    c. An abacus
    d. A 2 year operating cycle

44. Assets always = Liabilities + Shareholders' equity:
    a. True
    b. False

45. Which of the following balance sheet accounts are contra assets?
    a. Allowance for doubtful accounts
    b. Accumulated depreciation
    c. Accumulated amortization
    d. All of the above

46. Which of the following balance sheet accounts are contra equity?
    a. Treasury stock
    b. Allowance for doubtful accounts
    c. Accumulated depreciation
    d. Accumulated amortization

47. The balance sheet shows an "as of" date in the heading:
    a. True
    b. False

48. The balance sheet displays fixed assets at cost along with accumulated depreciation:
    a. True
    b. False

49. The balance sheet displays fixed assets at fair market value along with accumulated depreciation:
    a. True
    b. False

50. The retained earnings equity account is special because:
    a. It connects the balance sheet and income statement
    b. Accumulates prior losses
    c. Accumulates prior profits
    d. All of the above

51. Why is retained earnings cool?
    a. It is a reflection of prior earnings less dividends
    b. It reflects debt
    c. It reflects assets
    d. All of the above

52. What primary accounts are affected when dividends are paid?
    a. Dividend expense (noooo), cash
    b. Retained earnings, Cash
    c. Board of directors, Cash
    d. All of the above

53. Cash paid back to investors in excess of prior retained earnings may be referred to by investors as:
    a. Investor expense
    b. Additional paid-in capital
    c. Return of capital
    d. Treasury stock

54. Which of the following are equity accounts?
    a. Additional paid-in capital
    b. Preferred stock
    c. Retained earnings
    d. All of the above

Balance Sheet and General Financials Answers & Explanations

1. What period of time does a balance sheet report?
    a. Specific point in time
The balance sheet has an "as of" date

2. What is another name for the balance sheet?
    d. Statement of financial condition
The statement of financial condition reports assets, liabilities, and equity

3. Which of the following is true regarding the balance sheet:
    a. Reports financial position at a point in time
The balance sheet can be compared to a photograph

4. The balance sheet reflects the following formula:
    a. Assets = Liabilities + Equity
The balance sheet reports assets, liabilities, and equity at a point in time

5. A complete set of financial statements contains all of the following, except:
    b. Statement of managerial performance
A complete set of financial statements does not include information for internal use only

6. All of the following are assets except:
    c. Accounts payable
Assets appear on the balance sheet financial statement

7. All of the following are liabilities except:
    d. Cash
Liabilities appear on the balance sheet financial statement

8. All of the following are equity accounts except:
    a. Accounts receivable
Equity accounts appear on the balance sheet financial statement

9. Financial statements are most valuable when presented:
    c. Together
Statements are presented together to form a complete financial picture

10. What is a benefit of the notes to the financial statements
    d. Disclose accounting details
The notes should provide additional, useful disclosures and information difficult to present with numbers alone

11. What is the minimum amount of accounts affected with each transaction?
    b. Two
At all times: Assets = Liabilities + Equity

12. When cash is received for a corporate investment, what other account is typically increased?
    c. Common stock

Corporations typically issue common stock in exchange for cash from investors

13. What could be a way to define assets?
    a. Economic resources

Assets may include: cash, accounts receivable, equipment, inventory, property, plant, & equipment, intangibles

14. What could be a way to define liability?
    b. Amounts owed

Liabilities may include: accounts payable, notes payable, accrued expenses, bonds payable

15. Which of the following account type does not appear on the balance sheet?
    c. Revenue

The balance sheet reflects the accounting equation: Assets = Liabilities + Equity

16. Cash appears on which financial statement?
    a. Balance sheet

Cash "always" appears first on the balance sheet

17. Which of the following are assets?
    d. All of the above

Assets appear first on the balance sheet

18. Which of the following is not an asset?
    a. Deferred revenue

Deferred revenue is a liability account for cash received, but not yet earned

19. Which of the following are liabilities?
    d. All of the above: Accounts payable, Notes payable, Accrued expenses

Liabilities appear after assets on the balance sheet

20. Which of the following are not liabilities?
    b. Accounts receivable

Accounts receivable generally represents cash owed to a business for sales

21. Which of the following is an equity account?
    c. Retained earnings

Retained earnings is a balance sheet account which accumulates the prior and current income statement results

22. Which of the following is not an equity account?
    a. Bonds

Bonds owned is an asset and bonds payable is a liability

23. Retained earnings accumulate activity from which financial statement?
    b. Income statement
Profit or loss for the period is closed to retained earnings

24. What could increase a liability account?
    c. Receive a cash loan
Increases in debt is the same as increases in liabilities

25. What could increase an equity account?
    d. All of the above: Profit for the current period, Issue of common stock, Issue of preferred stock
Equity accounts increase when there is a profit or investment is received

25. What could increase an equity account?
    d. All of the above: Profit for the current period, Issue of common stock, Issue of preferred stock
The notes to the financial statements may cover a large range of topics

27. What part of a complete set of financial statements may be several pages long?
    b. Notes
The notes to the financial statements may cover accounting methodologies, balance sheet detail, pending lawsuits, and more

28. Income statement results are recorded to what balance sheet account?
    d. Retained earnings
Net income or loss is recorded to this equity account at the end of the accounting period

29. What summarizes all debit and credit transactions in one report?
    a. Trial balance
Accountants use the trial balance to adjust accounts and assist in financial statement preparation

30. How are financial statements related?
    d. All of the above: Ending cash appears on both the balance sheet and cash flow statement, Profit or loss is recorded to retained earnings in the equity section of the balance sheet, The statement of cash flows prepared using the indirect method utilizes changes in balance sheet accounts
Financial statements are related in several different ways

31. How might a charity refer to the equivalent of a balance sheet?
    b. Statement of financial position
Different entities may refer to financial statements using different names

32. What contains the accounting record of all individual transactions?
    b. General ledger
Accountants enter daily transactions using software, which posts to the general ledger where financial transactions are recorded

33. What is a common way accountants adjust the financial record?
    c. Journal entries
Transactions may be summarized in a trial balance, where the accountant can make further adjustments with journal entries

34. What purpose(s) does the trial balance serve?
    d. All of the above: Summarize unadjusted account balances, Format the accounting record for easy adjustment, Summarize all balance sheet and income statement accounts in one place

The trial balance is often utilized by accountants for adjustments and financial statement preparation

35. What two financial statements are typically presented first?
    a. Balance sheet, Income statement

Note the standard order of presentation for financial statements: balance sheet, income statement, statement of shareholders' equity, statement of cash flows, and notes to the financial statements

36. Which one financial statement contains all the financial information a stakeholder could want?
    d. Financial statements should be presented together for maximum usefulness

Only when all of the individual statements and the notes to the financial statements are reported together, does the user have a complete financial picture

37. The heading of the balance sheet will specify:
    d. All of the above: Entity name, Point in time, Financial statement name

A balance sheet reports financial position at a point in time, includes the entity name, and "balance sheet" (or equivalent name) in the heading

38. Which of the following may be found on the balance sheet?
    d. All of the above: Assets, Liabilities, Equity

The balance sheet reflects the accounting equation and contains: Assets, liabilities, and equity

39. Which of the following may be found on the balance sheet?
    a. Assets

The balance sheet reflects the accounting equation and contains: Assets, liabilities, and equity

40. Which of the following is not a balance sheet account?
    b. Revenue

Revenue is an income statement account, while prepaid expense, notes payable, and deferred revenue are balance sheet accounts

41. What is the income statement without the balance sheet?
    d. All of the above: Salt, yet no pepper, Yin, but no yang, Peanut butter, but no jelly

The balance sheet and income statement go together like Cheech and Chong

42. What could be a long-term liability?
    c. Bonds due in 10 years

Typical long-term liabilities are due in a year or more from the balance sheet date

43. What might allow a company to have a different interpretation of the "due in a year or more" general long-term liability classification?
    d. A 2 year operating cycle

Long-term liabilities are typically due in a year or more, but may be different if the company has an operating cycle greater than a year, say, maybe a ship builder

44. Assets always = Liabilities + Shareholders' equity:
    a. True
A = L + E, Believe it

45. Which of the following balance sheet accounts are contra assets?
    d. All of the above
Allowance for doubtful accounts, Accumulated depreciation, and Accumulated amortization are all contra accounts, which generally appear negative on a standard balance sheet and serve to offset the related asset accounts

46. Which of the following balance sheet accounts are contra equity?
    a. Treasury stock
Treasury stock is stock a corporation re-purchases and is a contra equity account appearing on the balance sheet

47. The balance sheet shows an "as of" date in the heading:
    a. True
The balance sheet is "as of" a point in time and therefore often uses "as of" in the title

48. The balance sheet displays fixed assets at cost along with accumulated depreciation:
    a. True

49. The balance sheet displays fixed assets at fair market value along with accumulated depreciation:
    b. False
Yup. Balance sheet depreciable assets are held at cost, along with any related accumulated depreciation

50. The retained earnings equity account is special because:
    d. All of the above: It connects the balance sheet and income statement, Accumulates prior losses, Accumulates prior profits
Balance sheet depreciable assets are held at cost, along with any related accumulated depreciation

51. Why is retained earnings cool?
    a. It is a reflection of prior earnings less dividends
Retained earnings connects the balance sheet and income statement by accumulating prior profits and losses and… is the source of any dividend payments, along with cash

52. What primary accounts are affected when dividends are paid?
    b. Retained earnings, Cash
Retained earnings connects the balance sheet and income statement by accumulating prior profits and losses and… is the source of any dividend payments, along with cash

53. Cash paid back to investors in excess of prior retained earnings may be referred to by investors as:
    c. Return of capital
Dividends are paid from retained earnings and are never an expense

54. Which of the following are equity accounts?
    d. All of the above: Additional paid-in capital, Preferred stock, Retained earnings

Dividends must be paid from retained earnings by definition, therefore amounts paid to investors in excess of retained earnings may be considered return of capital

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Income Statement Questions

1. Incidental increases in net asset transactions:
    a. Losses
    b. Gains
    c. Exchange
    d. Revenues

2. Includes both operating and non-operating income:
    a. Gains
    b. Comprehensive income
    c. Earnings
    d. Revenues

3. Earned income through regular operations:
    a. Gains
    b. Other comprehensive income
    c. Revenues
    d. Comprehensive income

4. Performance measure:
    a. Assets
    b. Earnings
    c. Liabilities
    d. Expense

5. What period of time does the income statement always cover?
    a. Three months
    b. Any period of time
    c. One year
    d. Two years

6. What is another name for the income statement?
    a. Balance sheet
    b. Owners' equity
    c. Profit & loss
    d. Cash flows

7. Under both cash and accrual basis accounting, inventory purchases using cash affects which accounts?
    a. Cash, Inventory
    b. Cash, Expense
    c. Cash, Cost of goods sold
    d. Cash, Accrued expense

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8. Inventory is an asset until:
   a. Paid for
   b. Sold
   c. Manufactured
   d. Stored

9. Which of the following is true regarding the income statement:
   a. Reports financial position at a point in time
   b. Reports financial performance for a period of time
   c. Reports sources and changes of equity
   d. Reports changes in cash between accounting periods

10. All of the following are income statement accounts except:
   a. Sales revenue
   b. Bonds
   c. Cost of goods sold
   d. General expenses

11. What is another name for the income statement?
   a. Profit and loss
   b. Balance sheet
   c. Statement of shareholders' equity
   d. All of the above

12. Why can the income statement time period be compared to a video?
   a. Reports activity at a point in time
   b. Reports activity during a period of time
   c. Reports changes in equity
   d. Reports details not covered in the other financials

13. The income statement reflects the following formula:
   a. Assets = Liabilities + Equity
   b. Change in equity = Beginning retained earnings - Ending retained earnings
   c. Revenue – Expense = Profit or Loss
   d. All of the above

14. When is revenue typically recorded under the cash basis of accounting?
   a. Sale is made
   b. Collection is likely
   c. Accounts receivable increases
   d. Cash is received

15. When is revenue typically recorded under the accrual of accounting?
   a. When earned
   b. When cash is collected
   c. When noted
   d. When projected

16. When does cost of goods sold increase?
    a. Inventory is purchased
    b. Inventory is sold
    c. Goods are manufactured
    d. Goods are counted

17. How do you calculate gross profit?
    a. Assets = Liabilities + Equity
    b. Beginning retained earnings - Ending retained earnings
    c. Revenue – Cost of goods sold
    d. Revenue – Expenses

18. What does COGS stand for?
    a. Cost of gummies sold
    b. Cash over goods sold
    c. Cost overhead goods standing
    d. Cost of goods sold

19. Profit or loss is recorded to what balance sheet account?
    a. Retained earnings
    b. Cash
    c. Common stock
    d. Treasury stock

20. The income statement measures:
    a. Liquidity
    b. Financial performance
    c. Cash flow
    d. All of the above

21. The ending result of what financial statement is recorded to retained earnings?
    a. Statement of cash flows
    b. Balance sheet
    c. Income statement
    d. Notes

22. How might a charity refer to what is typically considered profit?
    a. Net income
    b. Change in retained earnings
    c. Change in net assets
    d. All of the above

23. How might a small business refer to what may be thought of as an income statement?
    a. Change in retained earnings
    b. Trial balance
    c. Bank reconciliation
    d. Profit and loss

24. What is the typical way COGS is calculated?
    a. Beginning inventory + Purchases - Ending inventory
    b. Assets = Liabilities + Equity
    c. Equity = Assets - Liabilities
    d. Beginning cash - Ending cash

25. If you know beginning inventory, ending inventory, and COGS, you can calculate inventory purchases:
    a. True
    b. False

26. COGS typically appears after what, on which financial statement?
    a. Cash, Balance sheet
    b. Office expense, Income statement
    c. Revenue, Income statement
    d. Accrued expense, Balance sheet

27. The income statement heading will reflect a:
    a. Point in time
    b. Time period
    c. Change in cash
    d. Change in retained earnings

28. Income from primary operations will be shown on what financial statement and account?
    a. Balance sheet, Accounts payable
    b. Statement of shareholders' equity, Common stock
    c. Income statement, Sales revenue
    d. Income statement, Extraordinary income

29. How might a company record loss on the sale of operating equipment?
    a. Revenue
    b. Income
    c. Gain
    d. Loss

30. A cookie company that sells a factory for a gain should include the gain in operating income:
    a. True
    b. False

31. Gross profit will appear on what type of income statement?
    a. Profit & loss
    b. Single-step
    c. Multi-step
    d. Statement of earnings

32. Interest earned on cash for a coffee shop would appear on the income statement as:
    a. Derivative income
    b. Unrealized gain
    c. Operating income
    d. Non-operating income

33. Why is there a distinction between operating and non-operating income?
    a. So users can better analyze primary business activity
    b. So users can simplify their analysis
    c. So users understand change in cash
    d. So users understand change in equity

34. Under accrual accounting, revenue is recorded on the income statement when:
    a. Cash is received
    b. Earned and realizable
    c. Cash is perceived
    d. All of the above

35. Under accrual accounting, COGS is recorded on the income statement when:
    a. When inventory is paid for in cash
    b. When inventory is purchased
    c. When inventory is sold
    d. When inventory is manufactured

36. Inventory purchase is an expense:
    a. True
    b. False

37. Under accrual accounting, expense is recorded on the income statement when:
    a. When incurred
    b. When thought
    c. When paid
    d. When negotiated

38. How might you define selling, general, and administrative expense (SG&A)?
    a. Overhead costs
    b. Extraordinary expense
    c. Ordinary business expense
    d. Component of work-in-process (WIP)

39. Installment loans typically contain an interest and principal component:
    a. True
    b. False

40. Depreciation expense is recorded on the…
    a. Balance sheet
    b. Income statement
    c. Statement of shareholders' equity
    d. Statement of cash flows

41. What type of depreciation expense is recorded on the income statement?
    a. Straight-line depreciation
    b. Declining-balance depreciation
    c. Units-of-production depreciation
    d. All of the above

42. Net sales - Cost of goods sold =
    a. Net income
    b. Gross profit
    c. Depreciable basis
    d. Net asset value

43. Net sales - Expenses =
    a. Depreciable basis
    b. Gross profit
    c. Net income or loss
    d. Net asset value

44. Dividends are not an expense on the income statement:
    a. True
    b. False

45. Dividends received are always recorded direct to the income statement:
    a. True
    b. False

46. What do small business owners often refer to as an income statement equivalent?
    a. Statement of shareholders' equity
    b. Balance sheet
    c. Profit and loss
    d. Statement of cash flows

47. What happens if cost of goods sold exceeds revenue?
    a. Products sold cost more than revenue received
    b. Business could be a San Francisco startup
    c. Likely time to find something else to do
    d. All of the above

48. The result of reducing an expense could be the same as:
    a. Increasing revenue
    b. Decreasing revenue
    c. Increasing liabilities
    d. Decreasing liabilities

49. The result of increasing an expense could be the same as:
    a. Increasing revenue
    b. Decreasing revenue
    c. Increasing liabilities
    d. Decreasing liabilities

50. The result of reducing revenue could be the same as:
    a. Increasing revenue
    b. Increasing common stock
    c. Increasing expense
    d. Decreasing expense

51. The result of increasing revenue could be the same as:
    a. Increasing revenue
    b. Increasing common stock
    c. Increasing expense
    d. Decreasing expense

Income Statement Answers & Explanations

1. Incidental increases in net asset transactions:
    b. Gains
Not included in operating income

2. Includes both operating and non-operating income:
    b. Comprehensive income
Appears below net income

3. Earned income through regular operations:
    c. Revenues
Does not include non-operating activities

4. Performance measure:
    b. Earnings
Appears on the income statement

5. What period of time does the income statement always cover?
    b. Any period of time
The income statement covers a specific period of time

6. What is another name for the income statement?
    c. Profit & loss
Small businesses often use the title profit & loss instead of income statement

7. Under both cash and accrual basis accounting, inventory purchases using cash affects which accounts?
    a. Cash, Inventory
Inventory purchases are not expenses

8. Inventory is an asset until:
    b. Sold
Inventory is an asset until it is disposed of

9. Which of the following is true regarding the income statement:
    b. Reports financial performance for a period of time
The income statement can be compared to a movie

10. All of the following are income statement accounts except:
    b. Bonds
Major income statement account categories include revenue and expenses

11. What is another name for the income statement?
    a. Profit and loss
The income statement has several different names depending on the entity type

12. Why can the income statement time period be compared to a video?
    b. Reports activity during a period of time

The income statement is reported over a time period such as one year or one month

13. The income statement reflects the following formula:
    c. Revenue – Expense = Profit or Loss

The income statement reports business activity

14. When is revenue typically recorded under the cash basis of accounting?
    d. Cash is received

Cash basis is a non-GAAP accounting method based on the receipt and disbursement of cash

15. When is revenue typically recorded under the accrual of accounting?
    a. When earned

Revenue under accrual basis accounting is recorded when earned and realizable

16. When does cost of goods sold increase?
    b. Inventory is sold

Inventory purchases factor into the cost of goods sold equation: COGS = Beginning inventory + Inventory purchases - Ending inventory

17. How do you calculate gross profit?
    c. Revenue – Cost of goods sold

Gross profit is calculated using revenue and cost of goods sold

18. What does COGS stand for?
    d. Cost of goods sold

Cost of goods sold is often abbreviated

19. Profit or loss is recorded to what balance sheet account?
    a. Retained earnings

Retained earnings shows the sum of accumulated business activity from the income statement

20. The income statement measures:
    b. Financial performance

Business activity is reported on the income statement which results in a profit or loss

21. The ending result of what financial statement is recorded to retained earnings?
    c. Income statement

Income statement results are recorded to the balance sheet at the end of the period

22. How might a charity refer to what is typically considered profit?
    c. Change in net assets

Different entities may refer to financial statements using different names

23. How might a small business refer to what may be thought of as an income statement?
    d. Profit and loss

Different entities may refer to financial statements using different names

24. What is the typical way COGS is calculated?
    a. Beginning inventory + Purchases - Ending inventory

Cost of goods calc: Beginning inventory + Purchase - Ending inventory

25. If you know beginning inventory, ending inventory, and COGS, you can calculate inventory purchases:
    a. True

A missing variable in the cost of goods sold equation can typically be solved if you have 3 of the 4 main components

26. COGS typically appears after what, on which financial statement?
    c. Revenue, Income statement

Cost of goods sold appears on the income statement after revenue from operations

27. The income statement heading will reflect a:
    b. Time period

The income statement records activity during a period of time, typically a year, quarter year, or month

28. Income from primary operations will be shown on what financial statement and account?
    c. Income statement, Sales revenue

Income from operations appears as sales revenue on the income statement

29. How might a company record loss on the sale of operating equipment?
    d. Loss

Gains and losses from non-operating activity will appear in an income account outside of revenue from operations, such as "gain" or "loss"

30. A cookie company that sells a factory for a gain should include the gain in operating income:
    b. False

Gains and losses from non-operating activity will appear in an income account outside of revenue from operations, such as "gain" or "loss"

31. Gross profit will appear on what type of income statement?
    c. Multi-step

A multi-step income statement provides the gross profit for the user

32. Interest earned on cash for a coffee shop would appear on the income statement as:
    d. Non-operating income

Interest income for a coffee shop would be recorded as non-operating income

33. Why is there a distinction between operating and non-operating income?
    a. So users can better analyze primary business activity

Separating operating and non-operating income allows users the ability to better analyze business operations

34. Under accrual accounting, revenue is recorded on the income statement when:
    b. Earned and realizable

Under accrual accounting, revenue is recorded when earned and realizable, typically when goods are shipped and services performed

35. Under accrual accounting, COGS is recorded on the income statement when:
    c. When inventory is sold

Cost of goods sold is typically recorded when goods are sold and shipped

36. Inventory purchase is an expense:
    b. False

Inventory purchases increase inventory assets are not "expensed" until they become cost of goods sold once sold / shipped

37. Under accrual accounting, expense is recorded on the income statement when:
    a. When incurred

Expense is recorded when incurred, such as accrued wage expense on the income statement before actually paid for in cash

38. How might you define selling, general, and administrative expense (SG&A)?
    c. Ordinary business expense

Selling, general, and administrative expense (SG&A) is ordinary business operating expense, such as administrative support

39. Installment loans typically contain an interest and principal component:
    a. True

Installment loans are typically repaid at a fixed payment amount, comprised of principal and interest

40. Depreciation expense is recorded on the…
    b. Income statement

Depreciation expense is recorded on the income statement and accumulated depreciation is recorded on the balance sheet

41. What type of depreciation expense is recorded on the income statement?
    d. All of the above: Straight-line depreciation, Declining-balance depreciation, Units-of-production depreciation

Depreciation expense regardless of methodology is recorded on the income statement and accumulated depreciation is recorded on the balance sheet

42. Net sales - Cost of goods sold =
    b. Gross profit

Net sales - Cost of goods sold = Gross profit

43. Net sales - Expenses =
    c. Net income or loss

Net sales - Expenses = Net income or loss

44. Dividends are not an expense on the income statement:
    a. True

Dividends are paid out of retained earnings (balance sheet account) and are not an income statement expense

45. Dividends received are always recorded direct to the income statement:
    b. False
Dividends received can affect different accounts based on the circumstances: Non-operating income, operating income, and equity

46. What do small business owners often refer to as an income statement equivalent?
    c. Profit and loss
A profit and loss statement is essentially an income statement named differently

47. What happens if cost of goods sold exceeds revenue?
    d. All of the above: Products sold cost more than revenue received, Business could be a San Francisco startup, Likely time to find something else to do
Cost of goods sold (COGS) should be less than revenue so that there is gross profit and a possibility of net income

48. The result of reducing an expense could be the same as:
    a. Increasing revenue
Less expense increases profit / net income and greater revenue would increase profit / net income

49. The result of increasing an expense could be the same as:
    b. Decreasing revenue
More expense decreases profit / net income and less revenue would decrease profit / net income

50. The result of reducing revenue could be the same as:
    c. Increasing expense
Less revenue decreases profit / net income and more expense would decrease profit / net income

51. The result of increasing revenue could be the same as:
    d. Decreasing expense
More revenue increases profit / net income and less expense would increase profit / net income

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Debits and Credits I Questions

1. What is not a purpose of debits and credits?
    a. Disclose detailed information
    b. Adjust transactions
    c. Ensure all transactions are entered
    d. Categorize transactions

2. Accounting software eliminates the need for debits and credits:
    a. True
    b. False

3. Every accounting transaction has at least one debit and one credit:
    a. True
    b. False

4. Which of the following is true about debits and credits?
    a. Entries comprise data used to prepare financial statements
    b. Every accounting transaction has at least one debit and one credit
    c. The sum of debits and the sum of credits for each transaction and the total of all transactions are always equal
    d. All of the above

5. The sum of assets will equal the sum of liability and equity accounts on which financial statement?
    a. Notes
    b. Statement of shareholders' equity
    c. Balance sheet
    d. Income statement

6. How are transactions typically manually entered into the accounting system?
    a. Pen
    b. Pencil
    c. Subsidiary ledgers
    d. Adjusting journal entries

7. The sum of all debit and credit transactions appears on what report?
    a. Trial balance
    b. Accounts receivable aging
    c. Accounts payable aging
    d. All of the above

8. What is typically presented first in an adjusting journal entry?
    a. Debit
    b. Credit

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9. The sum of debits always equals the sum of credits:
   a. True
   b. False

10. The double entry system always requires at least two accounts per transaction:
   a. True
   b. False

11. What is a benefit of debits and credits?
   a. Automatically reconciles cash
   b. Every transaction is classified and recorded
   c. Provides accounts receivable aging data
   d. Provides accounts payable aging data

12. Assets increase with a debit or credit?
   a. Debit
   b. Credit

13. Assets decrease with a debit or credit?
   a. Debit
   b. Credit

14. Contra assets increase with a debit or credit?
   a. Debit
   b. Credit

15. Contra assets decrease with a debit or credit?
   a. Debit
   b. Credit

16. Liabilities increase with a debit or credit?
   a. Debit
   b. Credit

17. Liabilities decrease with a debit or credit?
   a. Debit
   b. Credit

18. Equity increases with a debit or credit?
   a. Debit
   b. Credit

19. Equity decreases with a debit or credit?
   a. Debit
   b. Credit

20. Contra equity increases with a debit or credit?
    a. Debit
    b. Credit

21. Contra equity decreases with a debit or credit?
    a. Debit
    b. Credit

22. Revenue increases with a debit or credit?
    a. Debit
    b. Credit

23. Revenue decreases with a debit or credit?
    a. Debit
    b. Credit

24. Expense increases with a debit or credit?
    a. Debit
    b. Credit

25. Expense decreases with a debit or credit?
    a. Debit
    b. Credit

26. Increase accounts receivable:
    a. Debit
    b. Credit

27. Decrease cash:
    a. Debit
    b. Credit

28. Increase inventory:
    a. Debit
    b. Credit

29. Decrease property, plant, & equipment:
    a. Debit
    b. Credit

30. Increase accounts payable:
    a. Debit
    b. Credit

31. Decrease notes payable:
    a. Debit
    b. Credit

32. Increase common stock:
    a. Debit
    b. Credit

33. Decrease retained earnings:
    a. Debit
    b. Credit

34. Increase sales revenue
    a. Debit
    b. Credit

35. Increase expense:
    a. Debit
    b. Credit

36. What is a typical transaction entered via journal entry?
    a. Record sales
    b. Reduce accounts payable
    c. Record depreciation
    d. Record phone expense

37. What is the maximum accounts that may be effected by a journal entry?
    a. One
    b. Two
    c. Ten
    d. No maximum

38. What is the normal balance of an asset account?
    a. Debit
    b. Credit

39. What is the normal balance of a contra asset account?
    a. Debit
    b. Credit

40. What is the normal balance of a liability account?
    a. Debit
    b. Credit

41. What is the normal balance of a contra liability account?
    a. Debit
    b. Credit

42. What is the normal balance of an equity account?
    a. Debit
    b. Credit

43. What is the normal balance of a contra equity account?
    a. Debit
    b. Credit

44. What is the normal balance of a revenue account?
    a. Debit
    b. Credit

45. What is the normal balance of a contra revenue account?
    a. Debit
    b. Credit

46. What is the normal balance of an expense account?
    a. Debit
    b. Credit

Debits and Credits I Answers & Explanations

1. What is not a purpose of debits and credits?
    a. Disclose detailed information

Debits and credits is the system used for recording accounting transactions

2. Accounting software eliminates the need for debits and credits:
    b. False

While software has simplified entering daily transactions, debit and credit entries are always recorded in the background

3. Every accounting transaction has at least one debit and one credit:
    a. True

Every accounting transaction involves at least one debit and one credit: debits = credits

4. Which of the following is true about debits and credits?
    d. All of the above: Entries comprise data used to prepare financial statements, Every accounting transaction has at least one debit and one credit, The sum of debits and the sum of credits for each transaction and the total of all transactions are always equal

These entries make up the data used to prepare financial statements, such as the balance sheet and income statement

5. The sum of assets will equal the sum of liability and equity accounts on which financial statement?
    c. Balance sheet

A list of all transactions appears in the general ledger and the sum of assets will equal the sum of liability and equity accounts on the balance sheet

6. How are transactions typically manually entered into the accounting system?
    d. Adjusting journal entries

Adjusting entries allow accountants to adjust the record directly

7. The sum of all debit and credit transactions appears on what report?
    a. Trial balance

The trial balance summarizes debit and credit balances

8. What is typically presented first in an adjusting journal entry?
    a. Debit

The general order of entries is debit, then credit for the purposes of consistency, but can still function regardless of order

9. The sum of debits always equals the sum of credits:
    a. True

Accounting debits always equals accounting credits which "balances" the accounting equation: Assets = Liabilities + Owners' Equity

10. The double entry system always requires at least two accounts per transaction:
    a. True
Every transaction requires a minimum of two accounts so that debits may equal credits

11. What is a benefit of debits and credits?
    b. Every transaction is classified and recorded
By recording two sides of a transaction, the debit and credit system helps to explain how a transaction affects financial statements

12. Assets increase with a debit or credit?
    a. Debit
    b. Credit
Assets increase with a debit: cash and cash equivalents, accounts receivable, inventory, prepaid expense, investments, property, plant, & equipment, intangible assets

13. Assets decrease with a debit or credit?
    a. Debit
Assets decrease with a credit: cash and cash equivalents, accounts receivable, inventory, prepaid expense, investments, property, plant, & equipment, intangible assets

14. Contra assets increase with a debit or credit?
    b. Credit
Contra assets increase with a credit: allowance for doubtful accounts, accumulated depreciation, accumulated amortization

15. Contra assets decrease with a debit or credit?
    a. Debit
Contra assets decrease with a debit: allowance for doubtful accounts, accumulated depreciation, accumulated amortization

16. Liabilities increase with a debit or credit?
    b. Credit
Liabilities increase with a credit: accounts payable, notes payable, accrued expenses, deferred revenue, long-term bonds payable

17. Liabilities decrease with a debit or credit?
    a. Debit
Liabilities decrease with a debit: accounts payable, notes payable, accrued expenses, deferred revenue, long-term bonds payable

18. Equity increases with a debit or credit?
    b. Credit
Equity increases with a credit: common stock, additional paid-in capital, retained earnings

19. Equity decreases with a debit or credit?
    a. Debit
Equity decreases with a debit: common stock, additional paid-in capital, retained earnings

20. Contra equity increases with a debit or credit?
    a. Debit

Contra equity increases with a debit: treasury stock

21. Contra equity decreases with a debit or credit?
    b. Credit

Contra equity decreases with a credit: treasury stock

22. Revenue increases with a debit or credit?
    b. Credit

Revenue increases with a credit: sales revenue, interest income, investment income

23. Revenue decreases with a debit or credit?
    a. Debit

Revenue decreases with a debit: sales revenue, interest income, investment income

24. Expense increases with a debit or credit?
    a. Debit

Expenses increase with a debit: selling, general, and administrative, interest, repairs, depreciation

25. Expense decreases with a debit or credit?
    b. Credit

Expenses decrease with a credit: selling, general, and administrative, interest, repairs, depreciation

26. Increase accounts receivable:
    a. Debit

Accounts receivable assets increase with a debit and decrease with a credit

27. Decrease cash:
    b. Credit

Cash assets increase with a debit and decrease with a credit

28. Increase inventory:
    a. Debit

Inventory assets increase with a debit and decrease with a credit

29. Decrease property, plant, & equipment:
    b. Credit

Property, plant, & equipment assets increase with a debit and decrease with a credit

30. Increase accounts payable:
    b. Credit

Accounts payable liabilities increase with a credit and decrease with a debit

31. Decrease notes payable:
    a. Debit

Notes payable liabilities increase with a credit and decrease with a debit

32. Increase common stock:
    b. Credit

Common stock equity increases with a credit and decreases with a debit

33. Decrease retained earnings:
    a. Debit

Retained earnings equity increases with a credit and decreases with a debit

34. Increase sales revenue
    b. Credit

Sales revenue increases with a credit and decreases with a debit

35. Increase expense:
    a. Debit

Expense increases with a debit and decreases with a credit

36. What is a typical transaction entered via journal entry?
    c. Record depreciation

Recording depreciation typically requires a journal entry: debit depreciation expense, credit accumulated depreciation

37. What is the maximum accounts that may be effected by a journal entry?
    d. No maximum

Journal entries affect two or more accounts

38. What is the normal balance of an asset account?
    a. Debit

Assets (cash, accounts receivable, prepaid expense, etc…) have ordinary debit balances and increase with a debit / decrease with credit

39. What is the normal balance of a contra asset account?
    b. Credit

Contra assets (allowance for doubtful accounts, accumulated depreciation, etc…) have ordinary credit balances and increase with a credit / decrease with debit (the opposite of ordinary assets)

40. What is the normal balance of a liability account?
    b. Credit

Liabilities (accounts payable, accrued expense, deferred revenue, etc…) have ordinary credit balances and increase with a credit / decrease with a debit

41. What is the normal balance of a contra liability account?
    a. Debit

Contra liabilities (bond discounts) have ordinary debit balances and increase with a debit / decrease with a credit (the opposite of ordinary liabilities)

42. What is the normal balance of an equity account?
    b. Credit

Equity (common stock, retained earnings, etc…) has ordinary credit balances and increases with a credit / decreases with a debit

43. What is the normal balance of a contra equity account?
    a. Debit

Contra equity (treasury stock) has ordinary debit balances and increases with a debit / decreases with a credit (the opposite of ordinary equity)

44. What is the normal balance of a revenue account?
    b. Credit

Revenue (sales revenue, etc…) has ordinary credit balances and increase with a credit / decreases with a debit

45. What is the normal balance of a contra revenue account?
    a. Debit

Contra revenue (sales discounts, etc….) has ordinary debit balances and increases with a debit / decreases with a credit (the opposite of ordinary revenue)

46. What is the normal balance of an expense account?
    a. Debit

Expenses (office, depreciation, SG&A etc…) have ordinary debit balances and increase with a debit / decrease with credit

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Surprise Questions

1. Who is the double entry master of the Renaissance?
    a. Luca Pacioli
    b. John Gillingham CPA
    c. AccountingPlay.com
    d. All of the above

2. What is the income statement without the balance sheet when performing financial analysis?
    a. Love with no pain
    b. Sun with no clouds
    c. Incomplete
    d. All of the above

3. What could "net of" refer to?
    a. Basketball
    b. Stocks
    c. Cost - depreciation
    d. Bonds

4. Depreciation expense:
    a. Is perfect
    b. Is an estimate
    c. May be arbitrary
    d. All of the above

5. What does WIP stand for in accounting speak?
    a. Women in prison
    b. World internet project
    c. Work in process
    d. All of the above

6. What is the best app to learn accounting?
    a. Accounting Quiz Game
    b. Accounting Flashcards
    c. Accounting Play - Debits & Credits
    d. All of the above

7. What could be a way to "catch a case" as a controller?
    a. Misappropriation of funds
    b. Collusion
    c. Back dating stock options
    d. All of the above

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8. What does misappropriation of funds generally mean?
    a. Board of directors meeting
    b. Creative stealing
    c. Pronouncements
    d. All of the above

9. What could you call an extraordinarily creative accountant?
    a. Hero
    b. Philanthropist
    c. Prisoner
    d. Friend of the IRS

10. Why did the auditors cross the road?
    a. That is what they did last year
    b. Because to do otherwise would be immaterial
    c. Because the checklist told them so
    d. All of the above

11. What is a characteristic of successful accountants?
    a. Glutton for work
    b. Attention to detail
    c. Solid work relationships
    d. All of the above

12. What can help you land a Big 4 accounting job?
    a. Accounting fraternity
    b. Internships
    c. Connections
    d. All of the above

13. What are costs that may be a part of finished goods?
    a. Depreciation
    b. Factory labor
    c. Raw materials
    d. All of the above

14. How do manufacturing costs generally move through the accounting system as goods are produced?
    a. Raw material, work-in-process (WIP), finished good (FG)
    b. Work-in-process (WIP), finished good (FG), raw material
    c. Finished good (FG), raw material, Work-in-process (WIP)
    d. All of the above

15. In what type of entity could transfer pricing have relevance?
    a. Small partnership
    b. Large corporation
    c. Sole proprietorship
    d. Trust

16. Public accounting firms generally:
    a. Have one client
    b. Provide legal advice
    c. Have many clients
    d. All of the above

17. Private accounting generally refers to:
    a. Accounting for many companies
    b. Internal accounting for one company
    c. External audit
    d. All of the above

18. Invoice 2/10, net/30 may mean:
    a. 2% discount if paid in 10 days or all due in 30 days
    b. 10% discount if paid in 2 days or all due in 30 days
    c. Invoice due on demand
    d. May be paid in trade

19. Why might a CFO pay bills late, assuming there are no interest or penalties?
    a. Hold cash as short as possible
    b. Reduce possible borrowing costs
    c. Make vendors happy
    d. All of the above

20. What is a vendor?
    a. Controller of a company
    b. Chief executive officer
    c. Supplier of goods and services to a company
    d. Accounts payable clerk

21. What does lower of cost or market deal with?
    a. Inventory costs
    b. Stock valuation
    c. Borrowing costs
    d. All of the above

22. What may be required to become a CPA - Certified Public Accountant?
    a. A degree
    b. Work experience
    c. Lots of tests
    d. All of the above

23. Phantom income may refer to:
    a. Taxable income when no cash was received
    b. A strange accounting issue
    c. Finding money in the street
    d. A really nice car

24. What does a "write-off" generally refer to?
    a. GAAP deduction
    b. Tax deduction
    c. IFRS deduction
    d. Asset purchase

25. Why might a CFO want to defer profit into the next reporting period?
    a. Follow perfect GAAP
    b. Follow perfect IFRS
    c. Meet future financial goals
    d. Increase current period net income

26. What is a potential dark side of accrual basis accounting?
    a. Revenue manipulation
    b. Matching under GAAP
    c. Manipulation of cash balances
    d. All of the above

27. What does CFO typically stand for in the accounting world?
    a. Chief Financial Officer
    b. Chief Fire Officer
    c. Collateralized Fun Obligation
    d. Chief of Flight Operations

28. What does CEO typically stand for in the accounting world?
    a. Center for Effective Organizations
    b. Chief Executive Officer
    c. Chief Ethics Officer
    d. Cheat Every One

29. What does the board of directors do?
    a. Declare dividends
    b. Establish CEO compensation
    c. Establish high-level policy
    d. All of the above

30. What is a "B" corporation?
    a. Bogus corporation
    b. Same as a C-corporation
    c. Benefit corporation
    d. All of the above

31. Who always owns stock in a corporation?
    a. Employees
    b. Lenders
    c. Vendors
    d. Shareholders

32. What may be a feature of preferred stock?
    a. Dividend preference
    b. Limited or no voting rights
    c. Debt component
    d. All of the above

33. In accounting, what is the difference between: Principal v. Principle
    a. Original sum v. Guideline
    b. Guideline v. Original sum
    c. School boss v. Guide
    d. GAAP v. IFRS

34. What does "go public" for a corporation signify?
    a. CEO Compensation
    b. Company sells shares of stock on public markets
    c. Company sells tranches of debt on public markets
    d. Company tells the entire truth

35. What is factoring?
    a. Recording AR discounts
    b. Borrowing using bonds
    c. Selling receivables to a third party
    d. All of the above

36. Why might a company factor receivables?
    a. For fun
    b. Issue stock
    c. Increase sales
    d. Increase short-term cash flow

37. What is a way to think of "receivables"?
    a. Sales made, but cash not collected
    b. Sales made, with cash collected
    c. Factoring transactions
    d. Cash basis sales transactions

38. Where might unrealized gain or loss on securities appear on an income statement?
    a. Below net income
    b. Operating income
    c. Cost of goods sold
    d. Operating revenue

39. What does FOB shipping point versus FOB destination deal with?
    a. When to recognize an expense
    b. When to recognize a sale
    c. Vacation destinations
    d. All of the above

40. What are some expenses typically disallowed or limited under the US tax code?
    a. Meals & entertainment
    b. Bribes
    c. Penalties
    d. All of the above

41. How might an investor think of unrealized gains?
    a. Increase in stock value sold
    b. Increase in stock value not yet sold
    c. Interest from bonds
    d. Interest from banks

42. What is the difference between customer and vendor?
    a. Nothing
    b. Buy from customer, sell to vendor
    c. Sell to customer, buy from vendor
    d. Both are too cool for school

43. What does "SOX" deal with in the USA?
    a. Warm and toasty feet coverings
    b. Sole proprietorships
    c. Private company compliance
    d. Public company compliance

44. What does 10Q, 10K, and the SEC deal with in the USA?
    a. Sole proprietorships
    b. Public company reporting
    c. Private company compliance
    d. Partnerships

45. Why might a CFO analyze an accounts receivable aging?
    a. Analyze capital stock
    b. Analyze payables collection
    c. Analyze receivables collection
    d. Analyze retained earnings

46. Why might a CFO analyze an accounts payable aging?
    a. Analyze payables collection
    b. Analyze receivables collection
    c. Analyze capital stock
    d. Analyze retained earnings

Surprise Answers & Explanations

1. Who is the double entry master of the Renaissance?
   a. Luca Pacioli
Luca Pacioli is credited with establishing / popularizing double entry accounting

2. What is the income statement without the balance sheet when performing financial analysis?
   d. All of the above
The income statement and balance sheet are the foundation of a complete set of financials and must be viewed together to perform a complete analysis

3. What could "net of" refer to?
   c. Cost - depreciation
"Net of" may refer to fixed asset cost - depreciation, which would equate to the asset, "net of depreciation"

4. Depreciation expense:
   b. Is an estimate
Depreciation is an estimate that must be grounded in GAAP

5. What does WIP stand for in accounting speak?
   c. Work in process
According to the internet, WIP stands for a lot of things, but in accounting, stands for work in process

6. What is the best app to learn accounting?
   d. All of the above
Accounting Play makes the best apps to learn accounting: Biased Fact.

7. What could be a way to "catch a case" as a controller?
   d. All of the above
"Catch a case" is street slang for legal issues that could be created by: misappropriation of funds, collusion, and back dating of stock options

8. What does misappropriation of funds generally mean?
   b. Creative stealing
Misappropriation of funds is generally a euphemism for creative stealing

9. What could you call an extraordinarily creative accountant?
   c. Prisoner
This is a joke, but extraordinarily creative accountants may be breaking the law

10. Why did the auditors cross the road?
   d. All of the above
Auditors tend to follow the prior year procedures, use "immateriality" often, and have checklists for days

11. What is a characteristic of successful accountants?
    d. All of the above

Accounting tends to require a lot of hours, attention to detail, and solid work relationships (surprise)

12. What can help you land a Big 4 accounting job?
    d. All of the above

Landing a job at major accounting firms may be accomplished different ways, but accounting fraternities, internships, and connections are high on the list

13. What are costs that may be a part of finished goods?
    d. All of the above

Finished goods may include costs associated with raw materials, factory workers, machine depreciation, and manufacturing overhead

14. How do manufacturing costs generally move through the accounting system as goods are produced?
    a. Raw material, work-in-process (WIP), finished good (FG)

Various costs are included in finished goods as production moves costs from raw material to a finished good

15. In what type of entity could transfer pricing have relevance?
    b. Large corporation

Transfer pricing deals with the internal sale of products and services within the higher level entity, typically large corporations

16. Public accounting firms generally:
    c. Have many clients

Public accounting firms generally have many clients and perform a variety of work, but generally do not provide legal advice

17. Private accounting generally refers to:
    b. Internal accounting for one company

Private accounting generally refers to accounting within a company, such as being a company controller

18. Invoice 2/10, net/30 may mean:
    a. 2% discount if paid in 10 days or all due in 30 days

Invoice 2/10, net/30 refers to payment terms for items sold, so that if paid in 10 days the customer receives a 2% discount or the full invoice is due in 30 days

19. Why might a CFO pay bills late, assuming there are no interest or penalties?
    b. Reduce possible borrowing costs

Paying bills late reduces potential borrowing costs while increasing cash on hand, but does not make vendors happy, because they would rather be paid fast

20. What is a vendor?
    c. Supplier of goods and services to a company

Vendors are suppliers of goods and services to a company

21. What does lower of cost or market deal with?
    a. Inventory costs

Lower of cost or market is a technical inventory valuation requirement that is necessary under GAAP at times

22. What may be required to become a CPA - Certified Public Accountant?
    a. A degree

CPA requirements are pretty significant and change time to time

23. Phantom income may refer to:
    a. Taxable income when no cash was received

Phantom income is a loose term associated with taxable income without the taxpayer actually receiving cash

24. What does a "write-off" generally refer to?
    b. Tax deduction

Many people casually refer to a write-off as a word for tax deduction

25. Why might a CFO want to defer profit into the next reporting period?
    c. Meet future financial goals

Manipulating the timing difference of profits and losses is sometimes done to control the timing of profitability, generally to meet the expectations of stakeholders and may not be an acceptable accounting practice

26. What is a potential dark side of accrual basis accounting?
    a. Revenue manipulation

Because revenue is recorded when earned and realizable, a CFO may be pressured to record more revenue than is likely to actually be collected

27. What does CFO typically stand for in the accounting world?
    a. Chief Financial Officer

CFO generally refers to Chief Financial Officer, who shares the responsibility of issued financial statements along with the CEO, Chief Executive Officer

28. What does CEO typically stand for in the accounting world?
    b. Chief Executive Officer

CEO generally refers to Chief Executive Officer, who shares responsibility of issued financial statements along with the CFO, Chief Financial Officer

29. What does the board of directors do?
    d. All of the above

Board of directors are elected to direct corporations and share a variety of duties, including: declaring dividends, CEO compensation, and establishing policy

30. What is a "B" corporation?
    c. Benefit corporation

A "B" corporation is a relatively new business entity that has other stated intentions outside of shareholder wealth creation

31. Who always owns stock in a corporation?
    d. Shareholders

Shareholders own stock in the company and likely have voting rights unless shares are stipulated otherwise, such as some preferred stock

32. What may be a feature of preferred stock?
    d. All of the above

Unlike common stock, preferred stock may have features such as dividend preference, voting right differences, and even a debt component

33. In accounting, what is the difference between: Principal v. Principle
    a. Original sum v. Guideline

Principal is an original sum, such as a loan amount, while principle refers to a guideline, such as the Matching Principle

34. What does "go public" for a corporation signify?
    b. Company sells shares of stock on public markets

"Going public" refers to when a privately held company sells shares on public markets, such as the New York Stock Exchange

35. What is factoring?
    c. Selling receivables to a third party

Factoring receivables refers to selling receivables (AR) or unpaid "invoices" to a third party, typically for some kind of discount

36. Why might a company factor receivables?
    d. Increase short-term cash flow

Factoring receivables refers to selling receivables (AR) or unpaid "invoices" to a third party, typically for some kind of discount

37. What is a way to think of "receivables"?
    a. Sales made, but cash not collected

"Receivables" refers to accounts receivable (AR) where sales are initially recorded and removed when collected

38. Where might unrealized gain or loss on securities appear on an income statement?
    a. Below net income

Depending on local GAAP, gain and loss transactions not central to the primary operations of the business may appear below net income

39. What does FOB shipping point versus FOB destination deal with?
    b. When to recognize a sale

FOB shipping point sales are a sale when goods are shipped and FOB destination sales are recorded when the goods arrive

40. What are some expenses typically disallowed or limited under the US tax code?
    d. All of the above

Meals & entertainment, bribes, and penalties are examples of disallowed or limited deductions under the US tax code

41. How might an investor think of unrealized gains?
    b. Increase in stock value not yet sold

Unrealized gain (loss) may be thought of as change in value not yet realized (turned into cash)

42. What is the difference between customer and vendor?
    c. Sell to customer, buy from vendor

Businesses sell to customers and buy from vendors

43. What does "SOX" deal with in the USA?
    d. Public company compliance

SOX, the Sarbanes-Oxley Act is designed to help regulate reporting and internal control of USA publically traded companies, after several accounting scandals

44. What does 10Q, 10K, and the SEC deal with in the USA?
    b. Public company reporting

SEC stands for Securities and Exchange Commission and 10Qs / 10Ks refer to required quarterly and annual required reporting for publicly traded companies

45. Why might a CFO analyze an accounts receivable aging?
    c. Analyze receivables collection

The accounts receivable aging reports uncollected sales, typically in 30, 60, and 90 day + increments

46. Why might a CFO analyze an accounts payable aging?
    a. Analyze payables collection

The accounts payable aging reports unpaid invoices, typically in 30, 60, and 90 day + increments

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USA Business Entities Questions

1. Which of the following can be entities?
    a. Business
    b. Government
    c. Individual
    d. All of the above

2. Entity choice includes which of the following considerations?
    a. Legal
    b. Tax
    c. Investment
    d. All of the above

3. Piercing the corporate veil refers to:
    a. Legal action against individual corporate owners
    b. Multiple stock types for different investors
    c. Marriage of different business interests
    d. Merger or acquisition of a corporation

4. What is a common tool to limit owner liability?
    a. Panama corporations
    b. Insurance
    c. Banks
    d. All of the above

5. What is the most common business structure in the United States?
    a. Corporation
    b. Partnership
    c. Sole proprietorship
    d. Limited liability company

6. Who may still be personally responsible for corporate actions?
    a. Investor owners
    b. Chief financial officers
    c. Chief executive officers
    d. All of the above
7. What is an advantage of being a sole proprietor?
    a. Low cost
    b. Limited liability
    c. Guaranteed health coverage
    d. Lavish vacation benefits

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8. Sole proprietorships may operate in perpetuity:
   a. True
   b. False

9. Business may start as a sole proprietorship and later change entity:
   a. True
   b. False

10. What is a disadvantage of being a sole proprietor?
   a. Unlimited personal liability for business actions
   b. Business loans typically must be secured with personal assets
   c. No outside equity investment may be received
   d. All of the above

11. Owner use of sole proprietorship funds is referred to as a:
   a. Draw
   b. Wage
   c. Withdrawal
   d. All of the above

12. Which of the following are referred to as flow-through entities?
   a. Limited liability companies (LLCs)
   b. General partnership
   c. S-corporation
   d. All of the above

13. Owners report flow-through activity on a tax return as an individual or other business entity:
   a. True
   b. False

14. What structure is generally associated with double taxation?
   a. S-corporation
   b. Corporation
   c. Limited liability structure
   d. All of the above

15. Which of the following is true about a general partnership?
   a. Partners have limited liability
   b. Partnerships must file a partnership agreement
   c. Partners are personally liable for business debts and lawsuits
   d. All of the above

16. Partnerships may receive outside investment:
   a. True
   b. False

17. C-corporation (C-Corp) is a business entity that is legally separate from owners:
    a. True
    b. False

18. Which of the following are advantages to the corporate structure
    a. Liability protection
    b. Continuity of ownership
    c. Allows for outside investment
    d. All of the above

19. Which of the following is not an advantage to the corporate structure?
    a. Double taxation
    b. Liability protection
    c. Continuity of ownership
    d. Allows for outside investment

20. Corporate board of directors are responsible for:
    a. Hiring the chief executive officer (CEO)
    b. Declaring dividends
    c. Initiating stock splits
    d. All of the above

21. What is not a requirement of public companies?
    a. Issuance of audited financial statements
    b. Sustainable growth
    c. Internal control
    d. Elected board of directors

22. What are some possible disadvantages of the S-corporation structure?
    a. Share types
    b. Ownership nationality
    c. Division of profits
    d. All of the above

23. What is a possible business structure that may have double taxation issues and flow-through qualities?
    a. Trust
    b. Corporation
    c. Sole proprietorship
    d. Private foundation

24. What is an unlikely reason to choose a business structure?
    a. Wealth transfer
    b. Pay more taxes
    c. Pay less taxes
    d. Facilitate investment

25. What entity is generally used to facilitate outside investment?
    a. Corporation
    b. Sole proprietorship
    c. General partnership
    d. Trust

26. Who may certify a financial statement?
    a. Tax preparer
    b. Accountant
    c. Independent Certified Public Accountant
    d. All of the above

27. How might a USA partnership consistently compensate certain partners?
    a. Wages
    b. Guaranteed payments
    c. Dividends
    d. All of the above

28. What entity does LLC stand for?
    a. Lifetime Learning Credit
    b. Lend Lease Corporation
    c. Limited Liability Company
    d. Limited Liability Corporation

29. What business type is unincorporated and owned by an individual?
    a. Corporation
    b. Limited Liability Company
    c. Partnership
    d. Sole proprietorship

30. What is a disadvantage of the partnership structure?
    a. Limited life
    b. Easy setup
    c. Low fee
    d. All of the above

31. How might owners of an LLC be referred to as?
    a. Partners
    b. Members
    c. Shareholders
    d. All of the above

32. The LLC tax structure closely related to a:
    a. Corporation
    b. Charity
    c. Partnership
    d. Private foundation

33. The LLC structure allows for different ownership percentages:
    a. True
    b. False

34. How might owners of a corporation be referred to as?
    a. Partners
    b. Members
    c. Shareholders
    d. All of the above

35. What is the main source of additional paid-in capital?
    a. Rich parents
    b. Lines of credit
    c. Issuing bonds
    d. Issuing stock

36. A stock split may be compared to trading a dollar for four quarters:
    a. True
    b. False

37. What might motivate the board of directors to perform a reverse stock split?
    a. Large increase in stock fair market value
    b. Large decline in stock fair market value
    c. Large purchase of treasury stock
    d. Large bond issue

38. A corporation may be owned by only one person:
    a. True
    b. False

39. A partnership may be owned by only one person:
    a. True
    b. False

40. A sole proprietorship may be owned by more than one person:
    a. True
    b. False

41. What may be a disadvantage of the corporate structure for a small business?
    a. Limited liability
    b. Investment friendly
    c. Local and state fees
    d. All of the above

42. Why are many startup corporations registered in Delaware, but operate in other states?
    a. Save on tax
    b. Legal framework
    c. Simplification
    d. All of the above

43. The best time to choose a business entity is after the year end:
    a. True
    b. False

44. The best time to do business tax planning is before the year end:
    a. True
    b. False

45. A corporate owner may still be personally responsible for certain actions:
    a. True
    b. False

46. Corporations are generally the most efficient tax structure:
    a. True
    b. False

47. Two or more people operating informally, absent of a written agreement, may still be treated as a partnership:
    a. True
    b. False

48. Hiring and paying employees is low cost, easy, and fast:
    a. True
    b. False

49. Sole proprietorships may have employees:
    a. True
    b. False

50. State taxes / fees for corporations and LLCs vary significantly:
    a. True
    b. False

51. Sole proprietorships are exempt from all local taxes:
    a. True
    b. False

USA Business Entities Answers & Explanations

1. Which of the following can be entities?
   d. All of the above

There are several different entity types

2. Entity choice includes which of the following considerations?
   d. All of the above

Business entity selection is based on many different factors

3. Piercing the corporate veil refers to:
   a. Legal action against individual corporate owners

Corporate structures provide liability protection, but not in all cases

4. What is a common tool to limit owner liability?
   b. Insurance

Strategic liability protection may involve several strategies, but some are more common than others

5. What is the most common business structure in the United States?
   c. Sole proprietorship

Corporations constitute the majority of business activity, but not entity quantity

6. Who may still be personally responsible for corporate actions?
   d. All of the above

Piercing the corporate veil refers to individuals being personally liable for corporate actions

7. What is an advantage of being a sole proprietor?
   a. Low cost

Sole proprietorships have only one owner and are typically small businesses

8. Sole proprietorships may operate in perpetuity:
   b. False

Corporations may operate in perpetuity which allows continuity in ownership

9. Business may start as a sole proprietorship and later change entity:
   a. True

It is common to change a business structure as owner and investor needs change

10. What is a disadvantage of being a sole proprietor?
    d. All of the above

Sole proprietorships are very low cost, but have several different disadvantages

11. Owner use of sole proprietorship funds is referred to as a:
    a. Draw

A draw may be in the form of a personal use purchase or owner withdrawal

12. Which of the following are referred to as flow-through entities?
    d. All of the above

Flow-through entities generally do not pay income tax

13. Owners report flow-through activity on a tax return as an individual or other business entity:
    a. True

Flow-through entities generally do not pay income tax

14. What structure is generally associated with double taxation?
    b. Corporation

An entity must be subject to income tax in order to create double taxation

15. Which of the following is true about a general partnership?
    c. Partners are personally liable for business debts and lawsuits

Partnerships may be established informally and do not provide owners with liability protection

16. Partnerships may receive outside investment:
    a. True

Partnerships are highly flexible investment structures

17. C-corporation (C-Corp) is a business entity that is legally separate from owners:
    a. True

Corporations are legally separate entities from owners

18. Which of the following are advantages to the corporate structure
    d. All of the above

Corporations are a common structure for large scale investment

19. Which of the following is not an advantage to the corporate structure?
    a. Double taxation

Corporations tend to have significant tax and compliance costs

20. Corporate board of directors are responsible for:
    d. All of the above

Corporate board of directors are responsible for several functions

21. What is not a requirement of public companies?
    b. Sustainable growth

Public companies have significant compliance responsibilities

22. What are some possible disadvantages of the S-corporation structure?
    d. All of the above

The S-corporation tends to be an inflexible business structure compared to alternatives

23. What is a possible business structure that may have double taxation issues and flow-through qualities?
    a. Trust

Trusts have several different business and personal uses

24. What is an unlikely reason to choose a business structure?
    b. Pay more taxes

Entity structures have several advantages and disadvantage that should be carefully considered

25. What entity is generally used to facilitate outside investment?
    a. Corporation

The majority of large scale entities are corporations

26. Who may certify a financial statement?
    c. Independent Certified Public Accountant

Only independent CPAs can certify financial statements in the United States by performing an audit

27. How might a USA partnership consistently compensate certain partners?
    b. Guaranteed payments

USA partnerships may compensate certain partners with guaranteed payments, regardless of partnership profitability

28. What entity does LLC stand for?
    c. Limited Liability Company

LLC, Limited Liability Company, is a flow-through USA business structure with limited liability benefits

29. What business type is unincorporated and owned by an individual?
    d. Sole proprietorship

A sole proprietorship is an unincorporated, informal business structure, with limited life, owned by one person

30. What is a disadvantage of the partnership structure?
    a. Limited life

Partnerships have a limited life and end if a partner should die or otherwise withdraw from the partnership

31. How might owners of an LLC be referred to as?
    b. Members

LLC owners (Limited Liability Company) owners are properly referred to as members

32. The LLC tax structure closely related to a:
    c. Partnership

The tax LLC structure (Limited Liability Company) is mostly related to the partnership, flow-through structure, where the business entity is rarely taxed, but rather, passes on tax activity to members

33. The LLC structure allows for different ownership percentages:
    a. True

The tax LLC structure (Limited Liability Company) allows for different ownership percentages in the form of profit, loss, and capital

34. How might owners of a corporation be referred to as?
    c. Shareholders

Corporate owners are properly referred to as shareholders

35. What is the main source of additional paid-in capital?
    d. Issuing stock
Corporations typically receive additional paid-in capital by issuing stock

36. A stock split may be compared to trading a dollar for four quarters:
    a. True
Stock splits increase the quantity of shares issued, but the fair market value typically changes proportionately

37. What might motivate the board of directors to perform a reverse stock split?
    b. Large decline in stock fair market value
A reverse stock split may be motivated by large declines in market value, so that after the reverse split, the stock trades at a higher dollar value per share, but overall market capitalization stays the same in the short term

38. A corporation may be owned by only one person:
    a. True
Corporations may have one or even millions of shareholders

39. A partnership may be owned by only one person:
    b. False

40. A sole proprietorship may be owned by more than one person:
    b. False
By definition, sole proprietorships must have only one owner

41. What may be a disadvantage of the corporate structure for a small business?
    c. Local and state fees
A significant disadvantage of the corporate structure for small businesses is compliance costs, including state and local tax

42. Why are many startup corporations registered in Delaware, but operate in other states?
    b. Legal framework
Delaware is often the first state of incorporation for the benefit of a standardized legal framework, but may create additional layers of tax and compliance fees

43. The best time to choose a business entity is after the year end:
    b. False
Business entity planning should ideally be performed prior to business operation and certainly before the year end

44. The best time to do business tax planning is before the year end:
    a. True
Business tax planning is best performed before year end

45. A corporate owner may still be personally responsible for certain actions:
    a. True

Corporate owners may still be held personally liable in some cases such as negligence and other torts - which is referred to casually as "piercing the corporate veil"

46. Corporations are generally the most efficient tax structure:
    b. False

Generally speaking, C-Corporations may create double taxation issues and are formed primarily to receive investment capital, rather than tax purposes

47. Two or more people operating informally, absent of a written agreement, may still be treated as a partnership:
    a. True

Informal partnerships may be operated without a partnership agreement

48. Hiring and paying employees is low cost, easy, and fast:
    b. False

Hiring employees is generally an expensive proposition in terms of tax and compliance costs, not to mention compensation

49. Sole proprietorships may have employees:
    a. True

Sole proprietorships have one owner and may have employees

50. State taxes / fees for corporations and LLCs vary significantly:
    a. True

Fee and tax structures for business entities vary significantly state to state

51. Sole proprietorships are exempt from all local taxes:
    b. False

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Statement of Shareholders' Equity Questions

1. What is true regarding the statement of shareholders’ equity?
    a. Revenue and expense is detailed
    b. Cash inflow and outflow is detailed
    c. Change in retained earnings is reported
    d. Includes multi-page disclosures

2. Which of the following is true regarding the statement of shareholders’ equity:
    a. Reports financial position at a point in time
    b. Reports financial performance for a period of time
    c. Reports sources and changes of equity
    d. Reports changes in cash between accounting periods

3. What is another name for the statement of shareholders' equity?
    a. Statement of retained earnings
    b. Balance sheet
    c. Income statement
    d. Notes

4. What might be found on the statement of shareholders' equity
    a. Change in retained earnings
    b. Common stock issued
    c. Additional paid-in capital
    d. All of the above

5. The statement of shareholders' equity includes changes in:
    a. Expenses
    b. Financing
    c. Cash balances
    d. Revenue

6. What is the (cough) most common type of stock?
    a. Common stock
    b. Preferred stock
    c. Convertible stock
    d. Treasury stock

7. Par value of stock is more of a legal requirement and is not significant for most investors:
    a. True
    b. False

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8. How might par value be thought of?
    a. Legal requirement
    b. Assigned value
    c. Insignificant to stakeholders
    d. All of the above

9. Participating preferred stock may refer to:
    a. Potential to receive a larger dividend percentage
    b. Don't do it
    c. Seriously, no
    d. Warrants

10. Dividend in arrears may be possible with:
    a. Common stock
    b. Preferred stock
    c. Who cares
    d. Insert joke here

11. Stockholders' equity section reporting specific, generally non-operating transactions such as pension liability changes:
    a. Common stock
    b. Additional paid-in capital
    c. Accumulated other comprehensive income (OCI)
    d. Retained earnings

12. The statement of stockholders' equity provides further detail of what might already appear on the balance sheet:
    a. True
    b. False

13. Multiple stock classes may appear on the statement of stockholders' equity:
    a. True
    b. False

14. How might the background of new stock issues be further explained?
    a. Balance sheet
    b. Notes to the financial statements
    c. Income statement
    d. Statement of cash flows

15. What statement would breakdown various shares of stock issued?
    a. Balance sheet
    b. Income statement
    c. Statement of shareholders' equity
    d. Statement of cash flows

16. Why might there by treasury stock appearing on the statement of shareholders' equity?
    a. Company had a stock buyback
    b. Company issued common stock
    c. Company issued preferred stock
    d. All of the above

17. What is it referred to when a company has accumulated losses?
    a. Profit
    b. Deficit
    c. Net income
    d. Retained earnings

18. Stock may be issued in some instances without a par value:
    a. True
    b. False

19. What is a stock dividend?
    a. Distribution of stock shares to charity
    b. Distribution of stock shares to lenders
    c. Distribution of stock shares to shareholders
    d. All of the above

20. Dividends are paid from which shareholders' equity account?
    a. Common stock
    b. Treasury stock
    c. Accumulated deficit
    d. Retained earnings

21. A dividend payment to shareholders may appear on the income statement:
    a. True
    b. False

22. Why might there by a prior period adjustment?
    a. Prior period profit
    b. Prior period loss
    c. Material accounting errors
    d. Repurchase of common stock

23. The statement of stockholders' equity reports the changes in beginning and ending equity for the period:
    a. True
    b. False

Statement of Shareholders' Equity Answers & Explanations

1. What is true regarding the statement of shareholders’ equity?
    c. Change in retained earnings is reported
The statement of shareholders' equity includes common stock and change in retained earnings

2. Which of the following is true regarding the statement of shareholders’ equity:
    c. Reports sources and changes of equity
The statement of shareholders' equity includes changes in common stock, retained earnings, and other equity components

3. What is another name for the statement of shareholders' equity?
    a. Statement of retained earnings
The statement of shareholders' equity shows changes in retained earnings and equity financing

4. What might be found on the statement of shareholders' equity
    d. All of the above
The statement of shareholders' equity shows changes in retained earnings and equity financing

5. The statement of shareholders' equity includes changes in:
    b. Financing
The statement of shareholders' equity shows changes in retained earnings and equity financing

6. What is the (cough) most common type of stock?
    a. Common stock
Common stock is the most typical kind of stock

7. Par value of stock is more of a legal requirement and is not significant for most investors:
    a. True
Par value is generally a legal distinction that plays into accounting convention, but would not likely impact investor decision making

8. How might par value be thought of?
    d. All of the above
Par value is generally a legal distinction that plays into accounting convention, and may be thought of as an assigned value that generally has no real economic significance

9. Participating preferred stock may refer to:
    a. Potential to receive a larger dividend percentage
Participating preferred stock allows the investor to potentially receive more than the stated divided percentage rate

10. Dividend in arrears may be possible with:
    b. Preferred stock
Dividend in arrears may occur when a preferred stock holder has the right to a past dividend that the company did not pay

11. Stockholders' equity section reporting specific, generally non-operating transactions such as pension liability changes:

    c. Accumulated other comprehensive income (OCI)

Accumulated other comprehensive income (OCI) is a placeholder to record income statement items generally not in the operating section (below the line - net income / loss) and may include different items depending on accounting convention / business type, such as: Derivative related transactions, excess gain / loss on pension liabilities, net unrealized gain or loss on specific securities, and translation transactions

12. The statement of stockholders' equity provides further detail of what might already appear on the balance sheet:

    a. True

Balance sheet items such as retained earnings and common stock are further detailed on the statement of shareholders' equity

13. Multiple stock classes may appear on the statement of stockholders' equity:

    a. True

Large corporations may have several classes of stock, such as common and preferred, appearing on the statement of shareholders' equity

14. How might the background of new stock issues be further explained?

    b. Notes to the financial statements

The notes to the financial statements may be able to provide further detail not possible to disclose with numbers alone

15. What statement would breakdown various shares of stock issued?

    c. Statement of shareholders' equity

The statement of shareholders' equity provides the breakdown and period to period changes in stock issuance

16. Why might there by treasury stock appearing on the statement of shareholders' equity?

    a. Company had a stock buyback

Treasury stock could exist if the company has repurchased shares (stock buyback)

17. What is it referred to when a company has accumulated losses?

    b. Deficit

When there are accumulated losses, there will be a debit (loss) balance in what is normally thought of as retained earnings, and the account will then be referred to as a deficit or accumulated deficit

18. Stock may be issued in some instances without a par value:

    a. True

Par value is largely a requirement of state law and does not apply in all cases

19. What is a stock dividend?

    c. Distribution of stock shares to shareholders

Stock dividends are essentially regular dividends to stockholders in the form of stock

20. Dividends are paid from which shareholders' equity account?
    d. Retained earnings

Dividends are paid from retained earnings (shareholders' equity account)

21. A dividend payment to shareholders may appear on the income statement:
    b. False

Dividends are paid from retained earnings (shareholders' equity account)

22. Why might there by a prior period adjustment?
    c. Material accounting errors

Prior period adjustments appear when there are material accounting differences (errors) found in prior period issued financial statements

23. The statement of stockholders' equity reports the changes in beginning and ending equity for the period:
    a. True

The statement of shareholders' equity provides the breakdown and period to period changes in retained earnings, stock issuances, and other equity accounts

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Statement of Cash Flows Questions

1. Which of the following is true regarding the statement of cash flows:
    a. Reports financial position at a point in time
    b. Reports financial performance for a period of time
    c. Reports sources and changes of equity
    d. Reports changes in cash between accounting periods

2. What is the primary purpose of the statement of cash flows?
    a. Provide a breakdown of cash balances
    b. Summarize cost of borrowed cash
    c. Translate various cash currencies
    d. Detail cash changes in three main categories

3. Which of the following is a category found on the statement of cash flows?
    a. Operating
    b. Investing
    c. Financing
    d. All of the above

4. What is one way the statement of cash flows can assist investors?
    a. Show sources of cash changes
    b. Detail accrual basis revenue
    c. Detail accrual basis expenses
    d. Provide a breakdown of cash balances

5. The indirect method of cash flows preparation uses account changes found in which financial statement?
    a. Statement of retained earnings
    b. Balance sheet
    c. Income statement
    d. Notes

6. Which of the following methods is the most common way to prepare the statement of cash flows?
    a. Balance sheet method
    b. Direct method
    c. Indirect method
    d. General ledger method

7. Why might the statement of cash flows be important to stakeholders when using accrual accounting?
    a. Loans and equity financing affects ending cash
    b. Accrual income statements record expense when accrued, not paid
    c. Accrual income statements record revenue when earned, not received
    d. All of the above

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8. What statement reconciles beginning period cash to ending period cash?
    a. Statement of cash flows
    b. Statement of retained earnings
    c. Balance sheet
    d. Income statement

9. What type of activities may be covered on the statement of cash flows?
    a. Operating
    b. Investing
    c. Financing
    d. All of the above

10. What section of the cash flow statement would you find depreciation expense?
    a. Operating
    b. Investing
    c. Financing
    d. Supplemental

11. What section of the cash flow statement would you find proceeds from the sale of PP&E?
    a. Operating
    b. Investing
    c. Financing
    d. Supplemental

12. What section of the cash flow statement would you find dividend payment information?
    a. Operating
    b. Investing
    c. Financing
    d. Supplemental

13. What section of the cash flow statement would you find change in inventory information?
    a. Operating
    b. Investing
    c. Financing
    d. Supplemental

14. What section of the cash flow statement would you find a change in accounts payable?
    a. Operating
    b. Investing
    c. Financing
    d. Supplemental

15. What section of the cash flow statement would you find a change in bonds payable?
    a. Operating
    b. Investing
    c. Financing
    d. Supplemental

16. What section of the cash flow statement would you find a repurchase of company stock (treasury stock)?
    a. Operating
    b. Investing
    c. Financing
    d. Supplemental

17. What section of the cash flow statement would you find a purchase of manufacturing equipment?
    a. Operating
    b. Investing
    c. Financing
    d. Supplemental

18. What section of the cash flow statement would you find a change in accounts receivable?
    a. Operating
    b. Investing
    c. Financing
    d. Supplemental

19. What section of the cash flow statement would you find a change from proceeds of common stock?
    a. Operating
    b. Investing
    c. Financing
    d. Supplemental

20. What section of the cash flow statement would you find amortization expense?
    a. Operating
    b. Investing
    c. Financing
    d. Supplemental

21. What section of the cash flow statement would you find information relating to conversions of debt to equity?
    a. Operating
    b. Investing
    c. Financing
    d. Supplemental

22. Would the following be an add back or decrease to net income or loss on the cash flow statement: Increase in prepaid expense
    a. Add back
    b. Decrease

23. Would the following be an add back or decrease to net income or loss on the cash flow statement: Decrease in prepaid expense
    a. Add back
    b. Decrease

24. Would the following be an add back or decrease to net income or loss on the cash flow statement: Increase in accounts receivable
    a. Add back
    b. Decrease

25. Would the following be an add back or decrease to net income or loss on the cash flow statement: Decrease in accounts receivable
    a. Add back
    b. Decrease

26. Would the following be an add back or decrease to net income or loss on the cash flow statement: Decrease in inventory
    a. Add back
    b. Decrease

27. Would the following be an add back or decrease to net income or loss on the cash flow statement: Proceeds from an asset sold at a loss
    a. Add back
    b. Decrease

28. Would the following be an add back or decrease to net income or loss on the cash flow statement: Depreciation expense
    a. Add back
    b. Decrease

29. Would the following be an add back or decrease to net income or loss on the cash flow statement: Amortization expense
    a. Add back
    b. Decrease

30. What type of stakeholder may be particularly interested in the statement of cash flows?
    a. Employee
    b. Government
    c. Investor
    d. Barney

31. How is the cash flow statement and comparative balance sheet related?
    a. Beginning and ending cash
    b. Beginning and ending equity
    c. Reconciliation of net income
    d. Lengthy notes to the financial statements

32. How does the cash flow statement utilize net income or loss?
    a. Reconciles beginning and ending cash based on adjustments to equity
    b. Reconciles beginning and ending cash based on adjustments to net income or loss
    c. Reconciles the reconciliation
    d. Reconciles CPAs and IRS agents

33. What is a common operating add back to net income found on the cash flow statement because it is a non-cash expense?
    a. Common stock
    b. Treasury stock
    c. Depreciation
    d. All of the above

34. Why might an investor be particularly interested in the statement of cash flows?
    a. Learn about pending lawsuits
    b. Understand insider trading
    c. See if the company is collecting cash sales
    d. See if the company is collecting accrual sales

35. What is fundamental to understanding the cash flow statement?
    a. Treasury stock
    b. Cash versus non-cash transactions
    c. Stock warrants
    d. Business strategy

Statement of Cash Flows Answers & Explanations

1. Which of the following is true regarding the statement of cash flows:
    d. Reports changes in cash between accounting periods

The statement of cash flows may be prepared using the direct or indirect method

2. What is the primary purpose of the statement of cash flows?
    d. Detail cash changes in three main categories

The statement of cash flows reports the change in cash under operating, investing, and financing categories

3. Which of the following is a category found on the statement of cash flows?
    d. All of the above

The statement of cash flows reports the change in cash under operating, investing, and financing categories

4. What is one way the statement of cash flows can assist investors?
    a. Show sources of cash changes

The statement of cash flows helps investors see how cash is being collected and other changes in cash balances

5. The indirect method of cash flows preparation uses account changes found in which financial statement?
    b. Balance sheet

The indirect method reconciles beginning and ending period cash using asset, liability, and equity accounts

6. Which of the following methods is the most common way to prepare the statement of cash flows?
    c. Indirect method

The indirect method reconciles beginning and ending period cash using asset, liability, and equity accounts

7. Why might the statement of cash flows be important to stakeholders when using accrual accounting?
    d. All of the above

Accrual accounting opens up the door to fraud, as revenue and expense may be recorded before cash is transacted

8. What statement reconciles beginning period cash to ending period cash?
    a. Statement of cash flows

The indirect method to prepare the statement of cash flows reconciles beginning and ending period cash using asset, liability, and equity accounts

9. What type of activities may be covered on the statement of cash flows?
    d. All of the above

The statement of cash flows consists of operating, investing, and financing activities with the possible addition of supplemental information

10. What section of the cash flow statement would you find depreciation expense?
    a. Operating
Common operating items on the cash flow statement include change in: depreciation, accounts receivable (AR), accounts payable (AP), and inventory

11. What section of the cash flow statement would you find proceeds from the sale of PP&E?
    b. Investing
Common investing items on the cash flow statement include change in: property, plant, and equipment

12. What section of the cash flow statement would you find dividend payment information?
    c. Financing
Common financing items on the cash flow statement include change in: common stock, treasury stock, long-term debt, bonds

13. What section of the cash flow statement would you find change in inventory information?
    a. Operating
Common operating items on the cash flow statement include change in: depreciation, accounts receivable (AR), accounts payable (AP), and inventory

14. What section of the cash flow statement would you find a change in accounts payable?
    a. Operating
Common operating items on the cash flow statement include change in: depreciation, accounts receivable (AR), accounts payable (AP), and inventory

15. What section of the cash flow statement would you find a change in bonds payable?
    c. Financing
Common financing items on the cash flow statement include change in: common stock, treasury stock, long-term debt, bonds

16. What section of the cash flow statement would you find a repurchase of company stock (treasury stock)?
    c. Financing
Common financing items on the cash flow statement include change in: common stock, treasury stock, long-term debt, bonds

17. What section of the cash flow statement would you find a purchase of manufacturing equipment?
    b. Investing
Common investing items on the cash flow statement include change in: property, plant, and equipment

18. What section of the cash flow statement would you find a change in accounts receivable?
    a. Operating
Common operating items on the cash flow statement include change in: depreciation, accounts receivable (AR), accounts payable (AP), and inventory

19. What section of the cash flow statement would you find a change from proceeds of common stock?
    c. Financing
Common financing items on the cash flow statement include change in: common stock, treasury stock, long-term debt, bonds

20. What section of the cash flow statement would you find amortization expense?
    a. Operating

Common operating items on the cash flow statement include change in: depreciation, accounts receivable (AR), accounts payable (AP), and inventory

21. What section of the cash flow statement would you find information relating to conversions of debt to equity?
    d. Supplemental

Supplemental information on the cash flow statement may be disclosed if it does not fit into the other regular categories: operating, investing, or financing

22. Would the following be an add back or decrease to net income or loss on the cash flow statement: Increase in prepaid expense
    b. Decrease

An increase in prepaids involve cash out, so the transaction would contribute to a decrease on the cash flow statement (appears in the operating section)

23. Would the following be an add back or decrease to net income or loss on the cash flow statement: Decrease in prepaid expense
    a. Add back

A decrease in prepaids involve a non-cash expense, so the transaction would contribute to an add back on the cash flow statement (appears in the operating section)

24. Would the following be an add back or decrease to net income or loss on the cash flow statement: Increase in accounts receivable
    b. Decrease

An increase in accounts receivable involves sales revenue without cash collected which adds to net income, so the transaction would be recorded as an increase on the cash flow statement (appears in the operating section)

25. Would the following be an add back or decrease to net income or loss on the cash flow statement: Decrease in accounts receivable
    a. Add back

A decrease in accounts receivable would mean cash was collected, but not reflected in the current period net income and therefore must be added back to net income in the operating section

26. Would the following be an add back or decrease to net income or loss on the cash flow statement: Decrease in inventory
    a. Add back

A decrease in inventory would be an add back on the cash flow statement because it reduced net income (via COGS) without using actual cash and appear in the operating section

27. Would the following be an add back or decrease to net income or loss on the cash flow statement: Proceeds from an asset sold at a loss
    a. Add back

The proceeds from a sale recorded at a loss would be an add back because a net loss was recorded on the income statement, but cash actually increased (appears in the investing section)

28. Would the following be an add back or decrease to net income or loss on the cash flow statement: Depreciation expense

    a. Add back

Depreciation is a non-cash expense and is therefore an add back to net income in the operating section of the cash flow statement

29. Would the following be an add back or decrease to net income or loss on the cash flow statement: Amortization expense

    a. Add back

Amortization is a non-cash expense and is therefore an add back in the operating section of the cash flow statement

30. What type of stakeholder may be particularly interested in the statement of cash flows?

    c. Investor

Investors are particularly interested in the statement of cash flows to analyze the quality of company earnings and other factors that may otherwise not be known using the balance sheet and income statement alone

31. How is the cash flow statement and comparative balance sheet related?

    a. Beginning and ending cash

A comparative balance sheet shows prior period and current ending period cash, the same balances that are reconciled in the statement of cash flows, which also utilizes the current period net income or loss

32. How does the cash flow statement utilize net income or loss?

    b. Reconciles beginning and ending cash based on adjustments to net income or loss

The statement of cash flows uses beginning cash, net income or loss, and ending cash to help explain changes in cash in three general categories: operating, investing, and financing

33. What is a common operating add back to net income found on the cash flow statement because it is a non-cash expense?

    c. Depreciation

Depreciation is a non-cash expense and is therefore an add back to net income on the operating section of the cash flow statement, because no cash was actually used in the initial expense on the income statement

34. Why might an investor be particularly interested in the statement of cash flows?

    d. See if the company is collecting accrual sales

The cash flow statement may be analyzed with the other statements to determine if a company is actually collecting the sales that are appearing in the income statement

35. What is fundamental to understanding the cash flow statement?

    b. Cash versus non-cash transactions

The cash flow statement is heavily motivated by cash versus non-cash transactions which are a distinct feature of accrual accounting

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Debits and Credits II Questions

1. Which of the following is an asset increased with a debit?
    a. Accrued expenses
    b. Deferred revenue
    c. Prepaid expense
    d. Retained earnings

2. Which of the following is a contra asset increased with a credit?
    a. Depreciation expense
    b. Treasury stock
    c. Property, plant, & equipment
    d. Accumulated depreciation

3. Which of the following is a liability increased with a credit?
    a. Accrued expenses
    b. Prepaid expense
    c. Common stock
    d. Additional paid-in capital

4. Which of the following is a liability increased with a credit?
    a. Prepaid expense
    b. Deferred revenue
    c. Inventory
    d. Accumulated depreciation

5. Which of the following is a contra equity account increased with a debit?
    a. Common stock
    b. Retained earnings
    c. Treasury stock
    d. Additional paid-in capital

6. Increase allowance for doubtful accounts:
    a. Debit
    b. Credit

7. Decrease accumulated depreciation:
    a. Debit
    b. Credit

8. Increase prepaid expense:
    a. Debit
    b. Credit

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9. Increase accrued expenses
   a. Debit
   b. Credit

10. Increase bond discount:
   a. Debit
   b. Credit

11. Increase treasury stock
   a. Debit
   b. Credit

12. Increase capitalized interest
   a. Debit
   b. Credit

13. A cash asset sale of depreciated machinery for a gain would require which of the following accounts?
   a. Cash, Accumulated depreciation, Gain on sale, Machinery asset
   b. Cash, Accumulated amortization, Loss on sale, Machinery asset
   c. Cash, Accumulated depreciation, Revenue, Machinery asset
   d. Common stock, Accumulated depreciation, Gain on sale, Machinery asset

14. Transfer cash from savings to checking:
   a. Debit saving cash, Credit checking cash
   b. Debit checking cash, Credit savings cash
   c. Debit MMA cash, Credit yo Mama
   d. Debit accounts receivable, Credit savings cash

15. Receive cash from issuing common stock:
   a. Debit accounts receivable, Credit common stock
   b. Debit cash, Credit retained earnings
   c. Debit cash, Credit common stock
   d. Debit common stock, Credit cash

16. Make credit sale:
   a. Debit cash, Credit it
   b. Debit cash, Credit common stock
   c. Debit cash, Credit revenue
   d. Debit accounts receivable, Credit revenue

17. Collect credit sale:
   a. Debit cash, Credit accounts receivable
   b. Debit accounts receivable, Credit sales revenue
   c. Debit accounts receivable, Credit cash
   d. Debit cash, Credit all that'

18. Receive internet bill for May, the last day of May, but not due until June:
    a. Debit accounts payable, Credit internet expense
    b. Debit internet expense, Credit accounts payable
    c. Debit internet liability, Credit cash
    d. Debit internet expense, Credit cash

19. Pay internet bill for May in cash, at the end of June
    a. Debit accounts receivable, Credit cash
    b. Debit prepaids, Credit cash
    c. Debit accounts payable, Credit cash
    d. Debit cash, Credit accounts payable

20. Record depreciation expense:
    a. Debit amortization expense, Credit accumulated amortization
    b. Debit depreciation expense, Credit accounts payable
    c. Debit accumulated depreciation, Credit depreciation expense
    d. Debit depreciation expense, Credit accumulated depreciation

21. Which of the following is a contra liability account increased with a debit?
    a. Common stock
    b. Bond discount
    c. Treasury stock
    d. Inventory

22. Repurchase company stock using cash:
    a. Debit common stock, Credit cash
    b. Credit common stock, Debit treasury stock
    c. Debit treasury stock, Credit cash
    d. Credit treasury stock, Debit treasury stock

23. Make principal reducing and interest cash payment on note payable:
    a. Debit accounts receivable, Credit note payable, Credit cash
    b. Debit interest expense, Credit note payable, Credit cash
    c. Debit cash, Debit note payable, Credit interest expense
    d. Debit interest expense, Debit note payable, Credit cash

24. Sell depreciable asset for a loss:
    a. Debit cash, Debit accumulated depreciation, Debit loss, Credit depreciable asset
    b. Debit cash, Debit accumulated depreciation, Credit loss, Credit depreciable asset
    c. Debit cash, Debit accumulated amortization, Debit loss, Credit depreciable asset
    d. Debit prepaids, Debit accumulated depreciation, Debit loss, Credit depreciable asset

25. Sell depreciable asset for a gain:
    a. Debit cash, Debit accumulated depreciation, Debit loss, Credit depreciable asset
    b. Debit cash, Debit accumulated depreciation, Credit gain, Credit depreciable asset
    c. Debit cash, Debit accumulated depreciation, Credit loss, Credit depreciable asset
    d. Debit prepaids, Debit accumulated depreciation, Debit loss, Credit depreciable asset

26. Purchase building with cash and loan:
    a. Debit expense, Credit cash, Credit loan
    b. Debit building, Credit cash, Credit expense
    c. Debit building, Credit cash, Credit loan
    d. Debit building, Debit cash, Credit loan

27. Accrue local taxes:
    a. Debit cash, Credit tax
    b. Debit local tax expense, Credit cash
    c. Debit local tax payable, Credit tax expense
    d. Debit local tax expense, Credit local tax payable

28. Pay down line of credit
    a. Debit line of credit, Credit cash
    b. Credit line of credit, Debit cash
    c. Debit accounts receivable, Credit cash
    d. Debit accounts payable, Credit cash

29. Purchase inventory with cash
    a. Credit inventory, Debit cash
    b. Debit inventory, Credit cash
    c. Debit accounts receivable, Credit inventory
    d. Debit accounts payable, Credit inventory

30. Sell inventory item for cash
    a. Debit cash, Debit cost of goods sold, Debit inventory, Credit revenue
    b. Debit cash, Credit cost of goods sold, Credit inventory, Credit revenue
    c. Debit cash, Debit cost of goods sold, Credit inventory, Credit revenue
    d. Debit cash, Debit cost of goods sold, Debit accounts payable, Credit revenue

Debits and Credits II Answers & Explanations

1. Which of the following is an asset increased with a debit?
    c. Prepaid expense
Prepaids are an asset account established when ordinary expenses are paid ahead of time, such as 1 year of rent paid in advance

2. Which of the following is a contra asset increased with a credit?
    d. Accumulated depreciation
Contra accounts appear in the asset section of the balance sheet, generally presented as a negative number that serves to offset (reduce) the value of total net assets

3. Which of the following is a liability increased with a credit?
    a. Accrued expenses
Accrued expenses are certain expenses incurred, but not yet paid for, such as accrued vacation

4. Which of the following is a liability increased with a credit?
    b. Deferred revenue
Deferred revenue is advanced revenue a business receives for goods and services not yet delivered or performed, such as a magazine company receiving 1 year of subscription payment before sending anything

5. Which of the following is a contra equity account increased with a debit?
    c. Treasury stock
Treasury stock is stock reacquired by a corporation, such as a publically traded corporation buying back shares on the open market

6. Increase allowance for doubtful accounts:
    b. Credit
Allowance for doubtful accounts contra asset increases with a credit and decreases with a debit

7. Decrease accumulated depreciation:
    a. Debit
Accumulated depreciation contra asset increases with a credit and decreases with a debit

8. Increase prepaid expense:
    a. Debit
Prepaid expense asset increases with a debit and decreases with a credit

9. Increase accrued expenses
    b. Credit
Accrued expense liability increases with a credit and decreases with a debit
10. Increase bond discount:
    a. Debit
Bond discount contra liability increases with a debit and decreases with a credit

11. Increase treasury stock
    a. Debit
Treasury stock contra equity increases with a debit and decreases with a credit

12. Increase capitalized interest
    a. Debit
Capitalized interest asset increases with a debit and decreases with a credit

13. A cash asset sale of depreciated machinery for a gain would require which of the following accounts?
    a. Cash, Accumulated depreciation, Gain on sale, Machinery asset
Sale would require: increasing cash with a debit, removing the accumulated depreciation with a debit, removing the asset with a credit, and increasing gain on sale of asset with a credit

14. Transfer cash from savings to checking:
    b. Debit checking cash, Credit savings cash
Cash assets increase with a debit and decrease with a credit: "believe it"

15. Receive cash from issuing common stock:
    c. Debit cash, Credit common stock
Stock issuance increases cash with a debit and increases common stock with a credit

16. Make credit sale:
    d. Debit accounts receivable, Credit revenue
Credit sales record the sale by debiting accounts receivable and crediting sales revenue

17. Collect credit sale:
    a. Debit cash, Credit accounts receivable
Collect sales by increasing cash with a debit and reducing accounts receivable with a credit

18. Receive internet bill for May, the last day of May, but not due until June:
    b. Debit internet expense, Credit accounts payable
Expense increases as incurred, along with accounts payable if not yet paid for in cash

19. Pay internet bill for May in cash, at the end of June
    c. Debit accounts payable, Credit cash
Cash due for expenses is generally first recorded to accounts payable which is later reduced when cash paid

20. Record depreciation expense:
    d. Debit depreciation expense, Credit accumulated depreciation
Record depreciation by debiting depreciation expense (regular expense account) and crediting accumulated depreciation (contra account)

21. Which of the following is a contra liability account increased with a debit?
    b. Bond discount
Bond discounts are contra liability accounts that offset bonds payable

22. Repurchase company stock using cash:
    c. Debit treasury stock, Credit cash

Treasury stock is stock repurchased by a company: treasury stock (contra equity) increases and cash decreases

23. Make principal reducing and interest cash payment on note payable:
    d. Debit interest expense, Debit note payable, Credit cash

Installment loan payments are split into interest expense and principal reducing amounts. Interest expense increases, loan balance decreases, and cash decreases.

24. Sell depreciable asset for a loss:
    a. Debit cash, Debit accumulated depreciation, Debit loss, Credit depreciable asset

Sale of a depreciable asset requires that cash increases from proceeds, the asset and depreciation are removed, and a gain or loss is recorded

25. Sell depreciable asset for a gain:
    b. Debit cash, Debit accumulated depreciation, Credit gain, Credit depreciable asset

Sale of a depreciable asset requires that cash increases from proceeds, the asset and depreciation are removed, and a gain or loss is recorded

26. Purchase building with cash and loan:
    c. Debit building, Credit cash, Credit loan

A building purchase using cash and a loan involves increasing building asset, increasing a loan payable, and decreasing cash

27. Accrue local taxes:
    d. Debit local tax expense, Credit local tax payable

Accruing tax expense involves an expense and liability account

28. Pay down line of credit
    a. Debit line of credit, Credit cash

Paying down a line of credit involves reducing the line of credit liability (principal) and decreasing cash

29. Purchase inventory with cash
    b. Debit inventory, Credit cash

Inventory is an asset (not an expense) that increases when purchased and decreases when sold

30. Sell inventory item for cash
    c. Debit cash, Debit cost of goods sold, Credit inventory, Credit revenue

Sale of inventory for cash requires: Cash increase, Sales increase, Inventory decrease, Cost of goods sold increase

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Depreciation Methods Questions

1. Depreciation expense appears on the following financial statement:
   a. Statement of retained earnings
   b. Income statement
   c. Balance sheet
   d. Magic statement

2. Accumulated depreciation appears on the following financial statement:
   a. Statement of retained earnings
   b. Income statement
   c. Balance sheet
   d. Magic statement

3. What is the point of depreciation?
   a. To confuse accounting students
   b. To create contra accounts
   c. To create book to tax differences
   d. Capture the decline in asset use value over time

4. When is depreciation typically recorded?
   a. Monthly to yearly
   b. Whenever
   c. Daily
   d. At asset disposal

5. Which of the following is a typical depreciable asset?
   a. Property
   b. Plant
   c. Equipment
   d. All of the above

6. Depreciable assets are typically recorded at:
   a. Fair market value
   b. Cost
   c. Estimated salvage value
   d. Use value

7. What could potentially be included in the cost of a building constructed by a business?
   a. Furniture
   b. Computers
   c. Capitalized interest on building loan
   d. All of the above

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8. Land is not a depreciable asset:
   a. True
   b. False

9. What might be an internal methodology for depreciation?
   a. Tax basis
   b. Straight-line
   c. Declining-balance
   d. All of the above

10. Tax and book depreciation are always the same:
   a. True
   b. False

11. Amortization expense appears on the following financial statement:
   a. Statement of retained earnings
   b. Balance sheet
   c. Income statement
   d. Statement of shareholders' equity

12. Accumulated amortization appears on the following financial statement:
   a. Statement of retained earnings
   b. Income statement
   c. Statement of shareholders' equity
   d. Balance sheet

13. What is the point of amortization?
   a. Capture the decline in intangible assets over time
   b. Capture the decline in fixed assets over time
   c. Make intangibles more intangible
   d. Make intellectual property

14. What is a useful life for a depreciable asset?
   a. Actual time period asset lasts
   b. Estimated time period asset is expected to last
   c. Same as salvage value
   d. Present value calculations

15. Depreciable asset refers to:
   a. Intangible assets
   b. Cash money
   c. Asset that is subject to depreciation
   d. Decline in stocks

16. What is salvage value for a depreciable asset?
    a. Asset fair market value
    b. Asset purchase price and installation costs
    c. Actual asset value once no longer useful
    d. Estimated asset value once no longer useful

17. Salvage value may be thought of as:
    a. Scrap value
    b. Fair market value
    c. Basis
    d. Selling costs

18. Why would a company want accelerated depreciation for tax purposes?
    a. Show higher profits for investors
    b. Accelerate expense to reduce tax
    c. Impress the bank
    d. Sell bonds

19. Why would a company want slow down depreciation for book purposes?
    a. Reduce tax
    b. Lower debt
    c. Show higher profits for investors
    d. Increase COGS

20. Depreciation reduces asset value to fair market value on the balance sheet:
    a. True
    b. False

21. Depreciation may be a part of Cost of goods sold
    a. True
    b. False

22. Two different companies may choose different depreciable asset lives for the same asset:
    a. True
    b. False

23. Accumulated depreciation typically appears as a negative number on the balance sheet
    a. True
    b. False

24. Depreciation expense can continue after the useful life of the asset:
    a. True
    b. False

25. Depreciation is sometimes referred to as:
    a. Cash expense
    b. Capitalized interest
    c. Noncash expense
    d. Phantom income

26. Accelerated depreciation methods generally:
    a. Incorporate salvage value
    b. Are used for intangibles
    c. Have less associated expense in early years
    d. Have more associated expense in early years

27. What is one conceptual reason for allowing accelerated depreciation?
    a. Depreciable assets are more useful in early years
    b. Assets lose the same amount of value annually
    c. Machines are consistent
    d. Automobiles maintain value

28. Which of the following is not an accelerated depreciation method?
    a. Sum-of-the-years-digits'
    b. Straight-line
    c. MACRS method
    d. ACRS method

29. What depreciation methodology may be based upon machine output:
    a. Sum-of-the-years-digits'
    b. Straight-line
    c. Units-of-production
    d. Double declining

30. Book value of an asset can be defined as:
    a. Cost - salvage value
    b. Cost - fair market value
    c. Cost + accumulated depreciation
    d. Cost - accumulated depreciation

31. How is a combination of land and building purchase depreciated?
    a. Land and building costs are allocated
    b. Both land and building get depreciated
    c. Land is depreciated
    d. All of the above

32. How might the gain on the sale of a depreciable asset look?
    a. Adjusted basis - sale price
    b. Sale price - adjusted basis
    c. Fair market value - adjusted basis
    d. Adjusted basis - fair market value

33. Depreciation expense over time, rather than expense at time of purchase relates to what principle:
    a. Economic
    b. Monetary
    c. Matching
    d. Consistency

34. What is true about straight-line depreciation?
    a. Same expense each period
    b. Uses salvage value
    c. Requires a useful life
    d. All of the above

35. What is true about declining-balance depreciation when compared to straight-line depreciation?
    a. More expense in early years
    b. Uses salvage value
    c. Required under GAAP
    d. All of the above

36. What is true about sum-of-the-years-digits' depreciation method?
    a. Accelerated method
    b. Uses salvage value
    c. Generally a lame and theoretical concept
    d. All of the above

37. What is true about units-of-production depreciation?
    a. It is an accelerated method
    b. Based on machine use
    c. Common for most businesses
    d. All of the above

38. What happens to accumulated depreciation when an asset is sold?
    a. Accumulates
    b. Added
    c. Removed
    d. Nothing

39. What happens to accumulated depreciation when an asset is scrapped?
    a. Accumulates
    b. Added
    c. Nothing
    d. Removed

40. The US tax code sometimes allows for 100% effective depreciation elections of an asset in the first year:
    a. True
    b. False

41. Tax depreciation and GAAP depreciation may result in book to tax differences:
    a. True
    b. False

42. In "Big" corporate accounting, difference created from book to tax depreciation may result in:
    a. Deferred tax asset
    b. Deferred tax liability
    c. A headache
    d. All of the above

43. Under US-GAAP, accumulated depreciation may be adjusted for increases in fair market value:
    a. True
    b. False

44. How is depreciation typically recorded?
    a. Magic software
    b. IRS adjustment
    c. Journal entry
    d. All of the above

45. What two accounts are used to record depreciation?
    a. Noncash expense, Accumulated depreciation
    b. Depreciation expense, Accumulated amortization
    c. Asset expense, Accumulated depreciation
    d. Depreciation expense, Accumulated depreciation

46. What two accounts are used to record amortization?
    a. Amortization expense, Accumulated amortization
    b. Depreciation expense, Accumulated depreciation
    c. Amortization expense, Allowance for doubtful accounts
    d. Amortization expense, Treasury stock

47. Sale of a depreciable asset may result in a cash increase and a loss on sale
    a. True
    b. False

48. A depreciable asset may become worthless before the end of the assigned asset life:
    a. True
    b. False

49. An antique painting may generally be depreciated over 7 years:
    a. True
    b. False

50. Depreciation expense is a line item used in performing accounting and financial analysis
    a. True
    b. False

Depreciation Methods Answers & Explanations

1. Depreciation expense appears on the following financial statement:
    b. Income statement
Depreciation is a period expense appearing on the income statement and accumulated depreciation appears on the balance sheet

2. Accumulated depreciation appears on the following financial statement:
    c. Balance sheet
Accumulated depreciation is a contra asset that offsets asset cost on the balance sheet

3. What is the point of depreciation?
    d. Capture the decline in asset use value over time
Depreciation expense and the related accumulated depreciation account are used to record the decline in asset use value over time

4. When is depreciation typically recorded?
    a. Monthly to yearly
Depreciation is typically recorded on a monthly, quarterly, or annual basis via journal entry

5. Which of the following is a typical depreciable asset?
    d. All of the above
Physical assets which lose value over time are often depreciable assets, such as property, plant, and equipment (PP&E)

6. Depreciable assets are typically recorded at:
    b. Cost
US-GAAP records assets at cost, which may also include related costs such as the installation of a machine

7. What could potentially be included in the cost of a building constructed by a business?
    c. Capitalized interest on building loan
Capitalized interest could come from a construction loan as a building is being built

8. Land is not a depreciable asset:
    a. True
Land does not depreciate and is recorded at cost

9. What might be an internal methodology for depreciation?
    d. All of the above
Companies use several different methodologies for internal use, but may need to adjust the methodology if reporting on US-GAAP and filing taxes

10. Tax and book depreciation are always the same:
    b. False
Tax depreciation methodology often differs from book or GAAP methodologies

11. Amortization expense appears on the following financial statement:
    c. Income statement

Amortization is a period expense appearing on the income statement and accumulated amortization appears on the balance sheet

12. Accumulated amortization appears on the following financial statement:
    d. Balance sheet

Accumulated amortization is a contra asset that offsets intangible asset cost on the balance sheet

13. What is the point of amortization?
    a. Capture the decline in intangible assets over time

Amortization expense on the income statement and the related accumulated amortization account on the balance sheet are used to represent the decline in intangible asset use value over time

14. What is a useful life for a depreciable asset?
    b. Estimated time period asset is expected to last

Useful life may be established in terms of years or units of production for the estimated use time period the asset is useful for the intended purpose

15. Depreciable asset refers to:
    c. Asset that is subject to depreciation

Depreciable assets generally lose use / monetary value over time and are depreciated using the income statement depreciation expense account and balance sheet accumulated depreciation

16. What is salvage value for a depreciable asset?
    d. Estimated asset value once no longer useful

Salvage value is an estimate of value after an assets life, similar to a scrap value

17. Salvage value may be thought of as:
    a. Scrap value

Salvage value is an estimate of value after an assets life, similar to a scrap value

18. Why would a company want accelerated depreciation for tax purposes?
    b. Accelerate expense to reduce tax

Businesses often accelerate depreciation for tax purposes to accelerate current year deductions to reduce tax

19. Why would a company want slow down depreciation for book purposes?
    c. Show higher profits for investors

Lower depreciation relative to accelerated depreciation will increase profits because expense is reduced

20. Depreciation reduces asset value to fair market value on the balance sheet:
    b. False

Depreciation results in a book value for the asset which is rarely the same as the fair market value

21. Depreciation may be a part of Cost of goods sold
    a. True

Depreciation may be included in the costs of manufacturing included in finished goods and affect COGS

22. Two different companies may choose different depreciable asset lives for the same asset:
    a. True

Companies may have some discretion on asset lives so long it is justified under GAAP if issuing financial statements

23. Accumulated depreciation typically appears as a negative number on the balance sheet
    a. True

Accumulated depreciation, a contra account, reduces the book value of the asset on the balance sheet where it typically appears as a negative number

24. Depreciation expense can continue after the useful life of the asset:
    b. False

Depreciation expense cannot continue past the cost (depreciable basis) the related life assigned to the depreciable asset

25. Depreciation is sometimes referred to as:
    c. Noncash expense

Depreciation is not a cash expense and is therefore referred to as a noncash expense at times

26. Accelerated depreciation methods generally:
    d. Have more associated expense in early years

Accelerated depreciation generally results in more expense for depreciable assets in early years and ignores salvage value

27. What is one conceptual reason for allowing accelerated depreciation?
    a. Depreciable assets are more useful in early years

Generally depreciable assets are more useful in earlier years

28. Which of the following is not an accelerated depreciation method?
    b. Straight-line

Sum-of-the-years-digits', MACRS, and ACRS are all accelerated depreciation methodologies

29. What depreciation methodology may be based upon machine output:
    c. Units-of-production

Units-of-production may use the expected productive capacity of a machine as a depreciation life, such as a laser cutter that is expected to perform 100,000 cuts over time

30. Book value of an asset can be defined as:
    d. Cost - accumulated depreciation

Cost - accumulated depreciation

31. How is a combination of land and building purchase depreciated?
    a. Land and building costs are allocated

Typical purchases of buildings require that land and building are separated because land is not a depreciable asset

32. How might the gain on the sale of a depreciable asset look?
    b. Sale price - adjusted basis

Gains are the difference between adjusted basis and sales price

33. Depreciation expense over time, rather than expense at time of purchase relates to what principle:
    c. Matching

Depreciation over time under GAAP is designed to match expenses and revenue over a period of time

34. What is true about straight-line depreciation?
    d. All of the above

Straight-line depreciation calculations require asset cost, salvage value, useful life, and results in consistent depreciation expense

35. What is true about declining-balance depreciation when compared to straight-line depreciation?
    a. More expense in early years

Declining-balance depreciation expense is greater in earlier years when compared to other methodologies such as straight-line

36. What is true about sum-of-the-years-digits' depreciation method?
    d. All of the above

Sum-of-the-years-digits' depreciation is an accelerated method that is generally theoretical and rarely seen in the "real" world

37. What is true about units-of-production depreciation?
    b. Based on machine use

Units-of-production may use the expected production capacity of machine output as the basis for depreciation and takes into account salvage value

38. What happens to accumulated depreciation when an asset is sold?
    c. Removed

The sale of an asset requires the removal of the asset, accumulated depreciation, and likely a gain or loss

39. What happens to accumulated depreciation when an asset is scrapped?
    d. Removed

The removal of an asset requires the removal of the asset, accumulated depreciation, and likely a gain or loss

40. The US tax code sometimes allows for 100% effective depreciation elections of an asset in the first year:
    a. True

Under certain circumstances assets may be "written off" or 100% "expensed" in the first year

41. Tax depreciation and GAAP depreciation may result in book to tax differences:
    a. True

Often times corporate books have different depreciation than tax methods which may be accounted for using deferred tax assets and liabilities

42. In "Big" corporate accounting, difference created from book to tax depreciation may result in:
    d. All of the above
Deferred tax assets or liabilities may be required because of book to tax differences

43. Under US-GAAP, accumulated depreciation may be adjusted for increases in fair market value:
    b. False
Depreciable asset basis and accumulated depreciation under US-GAAP may not be adjusted

44. How is depreciation typically recorded?
    c. Journal entry
Depreciation is a typical noncash expense recorded using a journal entry

45. What two accounts are used to record depreciation?
    d. Depreciation expense, Accumulated depreciation
Depreciation is recorded using a depreciation expense account and contra asset account, accumulated depreciation

46. What two accounts are used to record amortization?
    a. Amortization expense, Accumulated amortization
Amortization is recorded using an expense account and contra asset account, accumulated amortization

47. Sale of a depreciable asset may result in a cash increase and a loss on sale
    a. True
If the sale price is less than the adjusted basis there will be a loss on sale, but cash will still be received

48. A depreciable asset may become worthless before the end of the assigned asset life:
    a. True
Asset life is only an estimate and an asset may be scrapped before the end of the assigned life, such as an obsolete computer with a 3 year life that is worthless after 2 years

49. An antique painting may generally be depreciated over 7 years:
    b. False
Generally an antique is not considered a depreciable asset like other business assets

50. Depreciation expense is a line item used in performing accounting and financial analysis
    a. True
Because depreciation is a noncash expense, it often has key importance in reconciliations and financial analysis

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Bonds Questions

1. Bonds can be an asset or liability:
    a. True
    b. False

2. What is one purpose of issuing bonds:
    a. Be cool about it
    b. Debt financing
    c. Equity financing
    d. Issuing common stock

3. Why might a company purchase bonds?
    a. To raise money
    b. To finance operations
    c. For a debt investment
    d. For an equity investment

4. How can one think of par value of a bond?
    a. Face value assigned
    b. Original stated price before issue
    c. Assigned value
    d. All of the above

5. Par value is typically stated in a nice whole number, such as $1,000:
    a. True
    b. False

6. Bonds sell on the open market for par value:
    a. True
    b. False

7. Bonds can increase or decrease in value as an investment:
    a. True
    b. False

8. Bonds as an investment generally decrease in value as interest rates go down:
    a. True
    b. False

9. Bonds as an investment generally increase in value as interest rates go down:
    a. True
    b. False

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10. Bonds as an investment generally decrease in value as interest rates go up:
    a. True
    b. False

11. Bonds as an investment generally increase in value as interest rates go up:
    a. True
    b. False

12. What creates a bond discount?
    a. Investor gets a good deal
    b. Investor pays the same as par value
    c. Investor pays less than par value
    d. Investor pays more than par value

13. What creates a bond premium?
    a. Investor pays a high price
    b. Investor pays the same as par value
    c. Investor pays less than par value
    d. Investor pays more than par value

14. What accounts are affected when bonds are issued at a discount?
    a. Cash, Bonds payable, Bond discount
    b. Cash, Bonds payable, Bond premium
    c. Cash, Investment in bonds, Bond premium
    d. Cash, Investment in bonds, Bond discount

15. What accounts are affected when bonds are issued at a premium?
    a. Cash, Bonds payable, Bond discount
    b. Cash, Bonds payable, Bond premium
    c. Cash, Investment in bonds, Bond discount
    d. Cash, Investment in bonds, Bond premium

16. Why are bond premiums amortized?
    a. Because bonds are intangible
    b. To make really complicated books
    c. To match borrowing expense across different periods
    d. Because bonds can be investments

17. In what case will bond issuer interest expense be greater than the cash interest payments?
    a. Bonds issued at a premium
    b. Bonds issued at a discount
    c. Bonds issued at par value
    d. All of the above

18. In what case will bond issuer interest expense be less than the cash interest payments?
    a. Bonds issued at a premium
    b. Bonds issued at a discount
    c. Bonds issued at par value
    d. All of the above

19. What happens to bond book value (carrying value) as a discount is amortized?
    a. Increases
    b. Decreases
    c. Stays the same
    d. All of the above

20. What happens to bond book value (carrying value) as a premium is amortized?
    a. Increases
    b. Decreases
    c. Stays the same
    d. All of the above

21. From an investor perspective, if a bond is selling for a premium, the effective interest rate is more or less than the stated rate?
    a. More
    b. Less
    c. Same
    d. Can't say

22. From an investor perspective, if a bond is selling for a discount, the effective interest rate is more or less than the stated rate?
    a. More
    b. Less
    c. Same
    d. Can't say

23. From an investor perspective, bond values __________ if other bank rates increase
    a. Increase
    b. Decrease

24. From an investor perspective, bond values __________ if other bank rates decrease
    a. Increase
    b. Decrease

25. What is a factor in the interest rate a company must pay to investors?
    a. Fed rate
    b. Investor sentiment
    c. Credit worthiness
    d. All of the above

26. What entity is likely the largest bond issuer, ever?
    a. USA
    b. Mc Ds
    c. Zimbabwe
    d. Elvis

27. Bonds typically pay a fixed amount of interest over time:
    a. TRUE
    b. False

28. Bonds typically pay a variable amount of interest over time:
    a. True
    b. False

29. Under US-GAAP, bond issues are typically recorded at:
    a. Fair market value
    b. Premium
    c. Book value
    d. Discount

30. What is a benefit of the bond discount account?
    a. Reduce book value
    b. Increase book value
    c. Complication
    d. All of the above

31. What is a benefit of the bond premium account?
    a. Reduce book value
    b. Increase book value
    c. Complication
    d. All of the above

32. What is one purpose of bond discounts and premiums?
    a. Reflect cash borrowing costs
    b. Reflect equity financing
    c. Reflect actual borrowing costs
    d. All of the above

33. Why might an investor purchase a bond?
    a. Capital appreciation
    b. Interest payments
    c. Own debt
    d. All of the above

34. What type of financing do bonds provide?
    a. Debt
    b. Equity
    c. Hedge
    d. All of the above

35. How may bonds be sold after already issued?
    a. Stock market
    b. Secondary market
    c. New issues
    d. Treasury direct

36. How might an investor invest in bonds?
    a. Bond fund
    b. New issues
    c. Secondary market
    d. All of the above

37. What bonds may have major USA tax advantages for investors?
    a. Municipal bonds
    b. Corporate bonds
    c. Cereal bonds
    d. All of the above

38. What is one major factor in bond interest rates?
    a. Weather
    b. Fed rate
    c. Commodity prices
    d. Gross domestic product

39. Accounting for bonds has the most relevance for what business entity?
    a. Sole proprietor
    b. Partnership
    c. Corporation
    d. Private foundation

40. Which of the following is a bond amortization methodology?
    a. Declining-balance
    b. Sum-of-the-years-digits'
    c. Units-of-production
    d. Straight-line

41. Which of the following is a bond amortization methodology?
    a. Effective interest rate
    b. Declining-balance
    c. Sum-of-the-years-digits'
    d. MACRS method

42. At maturity, a bond value is likely to be its:
    a. Issue price
    b. Par amount
    c. Discount
    d. Premium

43. When a company issues bonds at discount, it will need to:
    a. Have a bond premium
    b. Pay back less upon maturity than received at issue
    c. Pay back more upon maturity than received at issue
    d. Use the straight-line method

44. When a company issues bonds at premium it will need to:
    a. Have a bond discount
    b. Use the straight-line method
    c. Pay back more upon maturity than received at issue
    d. Pay back less upon maturity than received at issue

45. What helps account for bonds when a company receives less than face amount when issuing bonds?
    a. Bond discount
    b. Bond premium
    c. Bond coupon
    d. All of the above

46. What helps account for bonds when a company receives more than face amount when issuing bonds?
    a. Bond discount
    b. Bond premium
    c. Bond coupon
    d. All of the above

47. There is only one way to amortize bond discounts and premiums:
    a. True
    b. False

48. Bond amortization is something important for small businesses:
    a. True
    b. False

49. Bonds may be both an asset and a liability to a corporation:
    a. True
    b. False

50. Which of the following may indicate a bond issued at premium?
    a. 98
    b. 102
    c. 100
    d. All of the above

51. Which of the following may indicate a bond issued at discount?
    a. 102
    b. 100
    c. 98
    d. All of the above

52. Which of the following may indicate a bond issued at par?
    a. 100
    b. 100
    c. 98
    d. All of the above

Bonds Answers & Explanations

1. Bonds can be an asset or liability:
   a. True
Bonds can be owned as an investment (asset) or used to borrow money (liability)

2. What is one purpose of issuing bonds:
   a. Debt financing
Corporations issue bonds as a form of debt financing

3. Why might a company purchase bonds?
   c. For a debt investment
Bonds are typically purchased as short or long-term debt investments

4. How can one think of par value of a bond?
   d. All of the above
Par value of a bond is the original issue price assigned, but not the actual price it is necessarily bought or sold for

5. Par value is typically stated in a nice whole number, such as $1,000:
   a. True
Par value is typically stated as a whole amount and the interest rate is set around that value, depending on market conditions

6. Bonds sell on the open market for par value:
   b. False
Bonds typically sell for more or less than par value, depending on market conditions

7. Bonds can increase or decrease in value as an investment:
   a. True
Bonds as an investment fluctuate in value depending on market demand

8. Bonds as an investment generally decrease in value as interest rates go down:
   b. False
Bond value as an investment generally increases as rates go down, because newer bonds pay lower rates, which creates higher demand and prices for older bond issues with higher paying rates

9. Bonds as an investment generally increase in value as interest rates go down:
   a. True

10. Bonds as an investment generally decrease in value as interest rates go up:
   a. True
Bond value as an investment generally decreases as rates go up because investors can purchase new bond issues with higher rates

11. Bonds as an investment generally increase in value as interest rates go up:
    b. False
Bond value as an investment generally decreases as rates go up because investors can purchase new bond issues with higher rates

12. What creates a bond discount?
    c. Investor pays less than par value
Bond discounts are created when an investor pays less than par value for newly issued bonds

13. What creates a bond premium?
    d. Investor pays more than par value
Bond premiums are created when an investor pays more than par value on new issue bonds

14. What accounts are affected when bonds are issued at a discount?
    a. Cash, Bonds payable, Bond discount
Bonds issued at a discount require that the bond discount account increase along with bonds payable and cash

15. What accounts are affected when bonds are issued at a premium?
    b. Cash, Bonds payable, Bond premium
Bonds issued at a premium require that the bond premium account increase along with bonds payable and cash

16. Why are bond premiums amortized?
    c. To match borrowing expense across different periods
Because bonds are typically issued at more or less than par, amortizing (spreading expense over many years) the difference captures the effective interest expense across different periods

17. In what case will bond issuer interest expense be greater than the cash interest payments?
    b. Bonds issued at a discount
Companies issuing bonds at a discount will have greater interest expense than cash payments because the bond discount is being amortized due to the fact the company received less money (principal amount) than it will eventually pay back

18. In what case will bond issuer interest expense be less than the cash interest payments?
    a. Bonds issued at a premium
Companies issuing bonds at a premium will have less interest expense than cash payments because the bond premium is being amortized

19. What happens to bond book value (carrying value) as a discount is amortized?
    a. Increases
Bonds issued at a discount have an offsetting discount account which initially reduces book value and increases as it amortizes

20. What happens to bond book value (carrying value) as a premium is amortized?
    b. Decreases
Bonds issued at a premium have an offsetting premium account which initially increases book value and decreases as it amortizes

21. From an investor perspective, if a bond is selling for a premium, the effective interest rate is more or less than the stated rate?

    b. Less

When an investor pays a premium for a bond, the effective rate received is less than the stated rate because an investor will be repaid a principal amount that is less than the purchase amount

22. From an investor perspective, if a bond is selling for a discount, the effective interest rate is more or less than the stated rate?

    a. More

When an investor receives a discount for a bond, the effective rate received is more than the stated rate because an investor will be repaid a principal amount that is more than the purchase amount

23. From an investor perspective, bond values __________ if other bank rates increase

    b. Decrease

If investors can get new bond issues at higher rates, existing bond values will decrease

24. From an investor perspective, bond values __________ if other bank rates decrease

    a. Increase

If investors cannot get new bond issues at higher rates (rates are falling), existing bond values will increase

25. What is a factor in the interest rate a company must pay to investors?

    d. All of the above

Several different factors play into how much interest a company must pay to borrow, such as: Federal Reserve interest rates, investor sentiment, and credit worthiness

26. What entity is likely the largest bond issuer, ever?

    a. USA

The United States of America uses bond issues to borrow money and is likely the biggest borrower of all time

27. Bonds typically pay a fixed amount of interest over time:

    a. True

Bonds typically pay a fixed amount of interest over time and sell for more or less than par value to adjust pricing for market demand

28. Bonds typically pay a variable amount of interest over time:

    b. False

Bonds typically pay a fixed amount of interest over time and sell for more or less than par value to adjust pricing for market demand

29. Under US-GAAP, bond issues are typically recorded at:

    c. Book value

Bonds are typically recorded at book value which is par value along with a premium or discount

30. What is a benefit of the bond discount account?
    a. Reduce book value

Bond discounts and premiums adjust the net book value of bonds which are then amortized to adjust interest expense, so that it is not simply the cash paid

31. What is a benefit of the bond premium account?
    b. Increase book value

Bond discounts and premiums adjust the net book value of bonds which are then amortized to adjust interest expense, so that it is not simply the cash paid

32. What is one purpose of bond discounts and premiums?
    c. Reflect actual borrowing costs

Bond interest expense is rarely the same as the interest cash payment due to bond discounts and premiums

33. Why might an investor purchase a bond?
    d. All of the above

Investors may purchase bonds as a debt investment for both interest payments and capital appreciation

34. What type of financing do bonds provide?
    a. Debt

Issuing bonds is a form of debt financing

35. How may bonds be sold after already issued?
    b. Secondary market

Bonds after the original issue may sell on the secondary market

36. How might an investor invest in bonds?
    d. All of the above

Bonds may be purchased direct, in secondary markets, and through bond funds

37. What bonds may have major USA tax advantages for investors?
    a. Municipal bonds

Municipal bonds may be both state and federal tax free in certain instances

38. What is one major factor in bond interest rates?
    b. Fed rate

The fed rate largely determines interest rates for banks which has substantial influence on bond rates

39. Accounting for bonds has the most relevance for what business entity?
    c. Corporation

Bond issues are typically from large, publically traded corporations

40. Which of the following is a bond amortization methodology?
    d. Straight-line

Bond premiums and discounts may theoretically be amortized using the straight-line interest method, but actual method used will depend on local GAAP

41. Which of the following is a bond amortization methodology?
    a. Effective interest rate
Bond premiums and discounts may theoretically be amortized using the effective interest method, but actual method used will depend on local GAAP

42. At maturity, a bond value is likely to be its:
    b. Par amount
The par amount, or face value, will likely be paid at maturity and therefore the corresponding value at that point would be the same as par

43. When a company issues bonds at discount, it will need to:
    c. Pay back more upon maturity than received at issue
When bonds are issued at a discount, the borrower receives less money than it will owe at maturity

44. When a company issues bonds at premium it will need to:
    d. Pay back less upon maturity than received at issue
When bond are issued at a premium, the borrower receives more money than it will owe at maturity

45. What helps account for bonds when a company receives less than face amount when issuing bonds?
    a. Bond discount
Bond discounts are established when bonds are issued for less than the face value (par)

46. What helps account for bonds when a company receives more than face amount when issuing bonds?
    b. Bond premium
Bond premiums are established when bonds are issued for more than the face value (par)

47. There is only one way to amortize bond discounts and premiums:
    b. False
There are different ways to amortize bond premiums and discounts such as the straight-line and effective interest rate methods

48. Bond amortization is something important for small businesses:
    b. False
Bond issuances and accounting is most relevant to large, publically traded corporations

49. Bonds may be both an asset and a liability to a corporation:
    a. True
Bonds issued are liabilities and bonds owned are assets

50. Which of the following may indicate a bond issued at premium?
    b. 102
A bond issued at 102 is issued at a premium, over par

51. Which of the following may indicate a bond issued at discount?
    c. 98
A bond issued at 98 is issued at a discount under par

52. Which of the following may indicate a bond issued at par?
    a. 100

A bond issued at 100 is issued at par

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Bookkeeping and Internal Reporting Questions

1. Name one purpose of a bank reconciliation serve:
    a. Reconcile cash per books to cash per bank
    b. Reconcile changes in equity
    c. Reconcile non-cash transactions
    d. Determine profit or loss

2. What report might be useful for planning several adjusting journal entries?
    a. Bank reconciliation
    b. Working trial balance
    c. Accounts receivable aging
    d. Accounts payable aging

3. What are some common errors that novice bookkeepers may make?
    a. Expensing capital asset purchases
    b. Recording owner personal withdrawal as expense
    c. Recording amortized loan payments as interest only expense
    d. All of the above

4. What is a common adjustment that a CPA may provide a bookkeeper at year end?
    a. Loan balance adjustments
    b. Automobile expense
    c. Depreciation expense
    d. All of the above

5. Bookkeeper is a standardized and licensed designation:
    a. True
    b. False

6. What are accounting records without bank reconciliation?
    a. Popcorn without butter
    b. Peanut butter with no jelly
    c. Milk without cookies
    d. All of the above

7. Accounting software eliminates the need to have a bookkeeper:
    a. True
    b. False

8. How might a bookkeeper cross check payroll balances?
    a. Require employees to pick up physical checks
    b. Have managers approve time cards
    c. Reconcile to government filings
    d. All of the above

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9. What might be reconciled by a bookkeeper?
    a. Loan balances
    b. Payroll liabilities
    c. Cash
    d. All of the above

10. What is a possible sign of an all-star bookkeeper?
    a. Permanent file
    b. Thick glasses
    c. Speed
    d. All of the above

11. What does the process of "tick and tie" refer to?
    a. Bookkeeper dress code
    b. Connecting and cross checking work papers
    c. Bookkeeper bugs
    d. All of the above

12. What do high quality bookkeepers love?
    a. Dated and initialed work papers
    b. Reconciliations
    c. Permanent files
    d. All of the above

13. What does the term "work paper" refer to?
    a. Accountant prepared notes / reconciliations
    b. Bank statements
    c. Payroll filings
    d. Loan balances

14. What is a "transposition" error?
    a. Incorrect number due to computer error
    b. Incorrect number due to switching of digits
    c. Incorrect number due to cute puppies
    d. Purposeful manipulation

15. What might cause cash to be out of balance?
    a. Duplicated entries
    b. Unrecorded returned checks
    c. Unrecorded bank fees
    d. All of the above

16. Bookkeepers are expected to detect fraud:
    a. True
    b. False

17. What simple procedure can help detect fraud in small companies:
    a. Issuance of audited financial statements
    b. Carbon check copies
    c. Owner review of all cleared checks
    d. CFO control of all accounting functions

18. It is a good idea to have a large company CFO to perform bank reconciliations, issue checks, and record sales:
    a. True
    b. False

19. Segregation of duties is a sound big business accounting practice:
    a. True
    b. False

20. What does segregation of accounting duties generally create?
    a. Illegal hiring
    b. Specific and limited authority of accounting positions
    c. CFO omnipotence
    d. Dual check signing

21. Sales tax collected is recorded as an expense when paid:
    a. True
    b. False

22. Sales tax collected should be recorded as a liability:
    a. True
    b. False

23. In the ol' USA, what might FUTA, FICA, ETT deal with?
    a. Spaceships
    b. Income taxes
    c. Payroll taxes
    d. Sales taxes

24. In the ol' USA, how might someone casually refer to one aspect of payroll tax?
    a. Workers comp insurance
    b. Employee training tax
    c. State disability
    d. Social Security

25. In the ol' USA, payroll generally consists of both employer and employee tax compliance:
    a. True
    b. False

26. In the ol' USA, payroll exemptions may deal with:
    a. Workers comp insurance
    b. Employee tax withholding
    c. State disability
    d. Social Security

27. How might a bookkeeper improve their skills?
    a. Master debits and credits
    b. Professional certifications
    c. Continuing education
    d. All of the above

28. What may be referred to as the "close"?
    a. Finalizing the accounting record
    b. Reconciling cash balances
    c. Recording payroll liabilities
    d. Reconciling inventory

29. What may be involved in "closing the financials"?
    a. Reconciling cash
    b. Recording depreciation
    c. Reconciling payroll
    d. All of the above

30. What is an item that accounting software typically does not automatically record?
    a. Accrued payroll liabilities
    b. Depreciation expense
    c. Inventory reconciliation
    d. All of the above

31. What generally is a "subsidiary ledger"?
    a. Additional layer of accounting record
    b. A bunch of small corporations
    c. Cayman island tax shelters
    d. Carried partnership interest

32. What may be casually referred to as "rolling up" the financials?
    a. A bunch of accountants having too much fun
    b. Combining multiple accounting records to the parent or main record
    c. Completing all the bank reconciliations
    d. Eating a delicious, not so nutritious snack

33. What does "eating hours" casually refer to?
    a. Working through meals
    b. Working shorter hours than stated on your employer's timesheet
    c. Working longer hours than stated on your employer's timesheet
    d. Searching for new jobs constantly

34. Bookkeeping may be performed on the cash or accrual basis:
    a. True
    b. False

35. Both cash basis and accrual accounting may be performed using double-entry accounting:
    a. True
    b. False

36. Debits on the left, credits on the?
    a. Left
    b. Right
    c. Books
    d. Ledger

37. What report might be useful to analyze the collection of sales?
    a. Budget to actual P&L
    b. Accounts payable aging
    c. Accounts receivable aging
    d. All of the above

38. A company may use cash basis accounting, but maintain a record of accounts receivable:
    a. True
    b. False

39. What report might be useful to analyze the payment of bills?
    a. Budget to actual P&L
    b. Accounts payable aging
    c. Accounts receivable aging
    d. All of the above

40. A company may use cash basis accounting and still maintain a record of accounts payable:
    a. True
    b. False

41. What use might a "clearing account" have?
    a. Used for accumulated depreciation
    b. Used to reduce an account to zero
    c. Used for accumulated amortization
    d. Used to capitalize equipment

42. What is generally referred to as the "bottom line"?
    a. Ending cash
    b. Ending equity
    c. Profit or loss
    d. Ending liabilities

43. In casual language, what happens when a sale is collected?
    a. Cash decreases and AR increases
    b. Cash increases and AR increases
    c. Cash increases and payables decrease
    d. Cash increases and receivables decrease

44. In casual language, what happens when a bill is paid?
    a. Cash decreases and payables decreases
    b. Cash decreases and payables increases
    c. Cash increases and AR increases
    d. Cash increases and receivables decrease

45. How might AR and AP be different?
    a. AR for bills and AP for sales
    b. AR for sales and AP for bills
    c. They is the same
    d. AP is friend and AR is foe

46. What type of entry removes an accrual related transaction, recorded in the preceding period?
    a. Transaction level entry
    b. Depreciation entry
    c. Reversing entry
    d. Subsidiary ledger entry

47. Bills get entered into:
    a. Accounts payable
    b. Accounts receivable
    c. Accumulated depreciation
    d. Accumulated amortization

48. Create an invoice may refer to:
    a. Receive a bill
    b. Bill a customer
    c. Make an adjusting entry
    d. Perform a bank rec

49. What is a purchase order (PO)?
    a. Internal control design
    b. Order for goods sent to customer
    c. Order for goods sent to vendor
    d. Telling interns to get coffee

50. What might be the order of operations for the purchase of raw materials?
    a. Send cash, receive goods with invoice, invoice to AR, pay invoice
    b. Send AP, receive goods with invoice, invoice to AR, pay invoice
    c. Send AR, receive goods with invoice, invoice to AP, pay invoice
    d. Send PO, receive goods with invoice, invoice to AP, pay invoice

Bookkeeping and Internal Reporting Answers & Explanations

1. Name one purpose of a bank reconciliation serve:
    a. Reconcile cash per books to cash per bank

The bank reconciliation reconciles cash per books to cash per bank for common differences such as outstanding checks and deposits in transit

2. What report might be useful for planning several adjusting journal entries?
    b. Working trial balance

The working trial balance summarizes ending account balances in a format of debits and credits with multiple columns to allow for adjusting journal entries

3. What are some common errors that novice bookkeepers may make?
    d. All of the above

There are several common bookkeeping errors to be aware of, such as expensing of items that should be capitalized and expensing items that should have different classifications

4. What is a common adjustment that a CPA may provide a bookkeeper at year end?
    d. All of the above

A CPA or skilled accountant will often work with a company bookkeeper to provide further adjustments such as: depreciation, amortization, loan balances, payroll liabilities, and tax related adjustments

5. Bookkeeper is a standardized and licensed designation:
    b. False

"Bookkeeper" is a very general term for accountant and skill levels vary greatly

6. What are accounting records without bank reconciliation?
    d. All of the above

The bank reconciliation provides a check and balance function to improve the quality of a complete set of books and records

7. Accounting software eliminates the need to have a bookkeeper:
    b. False

Accounting software automation is very helpful, but still requires significant oversight

8. How might a bookkeeper cross check payroll balances?
    c. Reconcile to government filings

Payroll should be reconciled to government filings

9. What might be reconciled by a bookkeeper?
    d. All of the above

Good bookkeepers reconcile accounts to outside sources to increase accuracy

10. What is a possible sign of an all-star bookkeeper?
    a. Permanent file

A permanent file keeps important information such as incorporation documents, capitalization tables, corporate minutes, major asset purchases and the like

11. What does the process of "tick and tie" refer to?
    b. Connecting and cross checking work papers

To "tick and tie" refers to the process of checking and cross checking, often leaving marks along the way

12. What do high quality bookkeepers love?
    d. All of the above

High quality books requires continuity of work papers that are dated, initialed, reconciled, and a source of permanent information

13. What does the term "work paper" refer to?
    a. Accountant prepared notes / reconciliations

Work papers are the documents and notes prepared by accountants and maintained internally

14. What is a "transposition" error?
    b. Incorrect number due to switching of digits

Transposition errors occur via human error when digits are shifted in a number, such as 778 entered in as 787

15. What might cause cash to be out of balance?
    d. All of the above

The process of reconciling bank accounts can capture several errors such as: duplicated transactions, missing fees, unrecorded items, returned checks, and more

16. Bookkeepers are expected to detect fraud:
    b. False

Generally, bookkeeping engagements are not designed to detect fraud

17. What simple procedure can help detect fraud in small companies:
    c. Owner review of all cleared checks

Small company owners can review checks clearing the account for obvious frauds, while procedures such as audit may be very expensive. CFO control of all aspects of accounting could allow the CFO to commit undetectable fraud.

18. It is a good idea to have a large company CFO to perform bank reconciliations, issue checks, and record sales:
    b. False

Giving too many accounting functions to one person opens up the potential for undetectable fraud

19. Segregation of duties is a sound big business accounting practice:
    a. True

Segregation of duties refers to creating different accounting positions to perform distinct and limited operations to prevent fraud

20. What does segregation of accounting duties generally create?
    b. Specific and limited authority of accounting positions

Segregation of duties separates various accounting roles to prevent fraud and is most relevant in larger companies

21. Sales tax collected is recorded as an expense when paid:
    b. False
Sales tax collected should be recorded as a liability, which is reduced when remitted to the taxing authority

22. Sales tax collected should be recorded as a liability:
    a. True
Sales tax collected should be recorded as a liability, which is reduced when remitted to the taxing authority

23. In the ol' USA, what might FUTA, FICA, ETT deal with?
    c. Payroll taxes
Payroll may create several taxes such as: FICA, FUTA, ETT, etc…

24. In the ol' USA, how might someone casually refer to one aspect of payroll tax?
    d. Social Security
        A large portion of payroll taxes in the USA relates to Social Security costs

25. In the ol' USA, payroll generally consists of both employer and employee tax compliance:
    a. True
Payroll likely requires both employer and employee tax remittance

26. In the ol' USA, payroll exemptions may deal with:
    b. Employee tax withholding
Employee stated "exemptions" in the payroll process will help determine how much tax is withheld and remitted for the employee

27. How might a bookkeeper improve their skills?
    d. All of the above
Bookkeeper skills vary hugely and may be improved by more technical and academic education

28. What may be referred to as the "close"?
    a. Finalizing the accounting record
The accounting "close" generally refers to finalizing the books and issuing some form of financial statements

29. What may be involved in "closing the financials"?
    d. All of the above
Closing the financials generally means finalizing the accounting record and may involve reconciling many items

30. What is an item that accounting software typically does not automatically record?
    d. All of the above
All accounting software packages have limitations

31. What generally is a "subsidiary ledger"?
    a. Additional layer of accounting record
A subsidiary ledger may be a detailed accounting record, of say inventory detail, that may total to certain balances in the actual accounting record

32. What may be casually referred to as "rolling up" the financials?
    b. Combining multiple accounting records to the parent or main record

A "roll up" may refer to several sub-companies that combine into the top-level, or main / parent company and is most relevant for larger complex business structures

33. What does "eating hours" casually refer to?
    c. Working longer hours than stated on your employer's timesheet

"Eating hours" is a loose term for working longer hours than actually stated to a client or employer and often takes place in public accounting firms

34. Bookkeeping may be performed on the cash or accrual basis:
    a. True

Many small businesses use the cash method of accountancy for simplicity, but may also choose accrual

35. Both cash basis and accrual accounting may be performed using double-entry accounting:
    a. True

Both cash and accrual accounting should be performed using dual-entry accounting

36. Debits on the left, credits on the?
    b. Right

Debits on the left, credits on the right, balance sheet so tight

37. What report might be useful to analyze the collection of sales?
    c. Accounts receivable aging

The accounts receivable aging will contain all sales made, but not collected, typically in 30, 60, and 90 day + intervals

38. A company may use cash basis accounting, but maintain a record of accounts receivable:
    a. True

Cash basis companies still often maintain some form of receivables account (AR), even if reduced to zero when reports are generated

39. What report might be useful to analyze the payment of bills?
    b. Accounts payable aging

The accounts payable aging will contain all bills received, but not paid, typically in 30, 60, and 90 day + intervals

40. A company may use cash basis accounting and still maintain a record of accounts payable:
    a. True

Cash basis companies still often maintain some form of accounts payable account (AP), even if reduced to zero when reports are generated

41. What use might a "clearing account" have?
    b. Used to reduce an account to zero

A clearing account may be used in certain instances so certain elements may be viewed, such as accounts receivable on the cash basis, but not change the bottom line profit or loss

42. What is generally referred to as the "bottom line"?
    c. Profit or loss
The "bottom line" generally refers to the profit or loss / net income or loss at the end of the profit and loss statement / income statement

43. In casual language, what happens when a sale is collected?
    d. Cash increases and receivables decrease
When a sales is collected, cash increases and accounts receivable (AR / "receivables") decreases

44. In casual language, what happens when a bill is paid?
    a. Cash decreases and payables decreases
When a bill is paid, accounts payable (AP / "payables") decreases and cash decreases

45. How might AR and AP be different?
    b. AR for sales and AP for bills
Accounts receivable (AR) records sales and accounts payable (AP) records bills to be paid

46. What type of entry removes an accrual related transaction, recorded in the preceding period?
    c. Reversing entry
A reversing entry "reverses" or eliminates a prior accrual entry and may be used for accrual related transactions such as payroll related accruals

47. Bills get entered into:
    a. Accounts payable
Bills are received, coded, and entered into accounts payable so that they may be later paid in cash

48. Create an invoice may refer to:
    b. Bill a customer
Invoices are created and sent to customers for goods sold and services performed

49. What is a purchase order (PO)?
    c. Order for goods sent to vendor
Purchase orders (POs) are requests for goods from vendors

50. What might be the order of operations for the purchase of raw materials?
    d. Send PO, receive goods with invoice, invoice to AP, pay invoice
A manufacturing company may send a purchase order (PO) to vendor, receive the goods with invoice attached, enter invoice to accounts payable (AP), then later pay the vendor in cash

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Ratios and Analysis Questions

1. What is commonly used to help interpret financial statements?
    a. Ratios
    b. Prospecting
    c. Dowsing
    d. Justin Bieber

2. What is a useful analytical tool for stakeholders?
    a. Financial ratios
    b. Bank reconciliations
    c. Adjusting journal entries
    d. Bank confirmations

3. Financial ratios are generally designed for:
    a. Investors
    b. Business owners
    c. Lenders
    d. All of the above

4. Financial ratios are used in which of the following types of analysis?
    a. Financial
    b. Managerial
    c. Economic
    d. All of the above

5. The result of ratio analysis may facilitate:
    a. Decision making
    b. Cost basis
    c. Accumulated depreciation
    d. Treasury stock

6. Ratio analysis may be useful to both internal and external stakeholders:
    a. True
    b. False

7. How might an external investor use financial analysis?
    a. Analyze per unit costing
    b. Analyze balance sheet strength
    c. Decide on payroll providers
    d. All of the above

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8. What might peer analysis refer to?
    a. Spying on competitors
    b. Comparison across different industries
    c. Comparison across similar industries
    d. Something legal only in California

9. What is an inherent limitation to financial ratios?
    a. Based on historical information
    b. Bond amortization methodologies
    c. Depreciation methodologies
    d. All of the above

10. What financial statements may be evaluated using ratio analysis?
    a. Income statement
    b. Balance sheet
    c. Statement of cash flows
    d. All of the above

11. What type of financial ratio is specific to a particular type of business?
    a. Liquidity ratios
    b. Industry specific
    c. Profitability ratios
    d. All of the above

12. What is something liquidity ratios measure or "do"?
a. Identify aspects of operations and efficiency
    b. Identify the level and quality of earnings
    c. Measure the ability to meet short-term financial obligations
    d. Identify relative cash positions

13. What is something profitability ratios measure or "do"?
    a. Identify aspects of operations and efficiency
    b. Identify the level and quality of earnings
    c. Measure the ability to meet short-term financial obligations
    d. Identify relative cash positions

14. What is something debt or solvency ratios measure or "do"?
    a. Give insight into financial leverage
    b. Identify the level and quality of earnings
    c. Provide industry specific manufacturing insight
    d. Identify relative cash positions

15. What is something operating performance ratios measure or "do"?
    a. Give insight into financial leverage
    b. Identify the level and quality of earnings
    c. Identify aspects of operations and efficiency
    d. Identify relative cash positions

16. What is something cash flow ratios measure or "do"?
    a. Give insight into financial leverage
    b. Identify the level and quality of earnings
    c. Identify aspects of operations and efficiency
    d. Identify relative cash positions

17. What is something valuation ratios measure or "do"?
    a. Analyze from an investment perspective
    b. Measure the ability to meet short-term financial obligations
    c. Identify relative cash positions
    d. All of the above

18. What is something industry specific ratios measure or "do"?
    a. Analyze from an investment perspective
    b. Identify measures particular to the industry
    c. Identify relative cash positions
    d. All of the above

19. How might the current ratio be classified?
    a. Profitability ratio
    b. Valuation ratio
    c. Liquidity ratio
    d. Debt and solvency ratio

20. How might the quick ratio be classified?
    a. Profitability ratio
    b. Valuation ratio
    c. Debt and solvency ratio
    d. Liquidity ratio

21. How might the cash ratio be classified?
    a. Liquidity ratio
    b. Valuation ratio
    c. Debt and solvency ratio
    d. Operating performance ratio

22. How might the times interest earned ratio be classified?
    a. Profitability ratio
    b. Liquidity ratio
    c. Debt and solvency ratio
    d. Valuation ratio

23. How might the profit margin ratio be classified?
    a. Cash flow ratio
    b. Valuation ratio
    c. Profitability ratio
    d. Operating performance ratio

24. How might gross margin be classified?
    a. Operating performance ratio
    b. Valuation ratio
    c. Debt and solvency ratio
    d. Profitability ratio

25. How might effective tax rate be classified?
    a. Profitability ratio
    b. Cash flow ratio
    c. Debt and solvency ratio
    d. Valuation ratio

26. How might return on assets be classified?
    a. Liquidity ratio
    b. Profitability ratio
    c. Debt and solvency ratio
    d. Valuation ratio

27. How might return on equity be classified?
    a. Liquidity ratio
    b. Valuation ratio
    c. Profitability ratio
    d. Operating performance ratio

28. How might the DuPont formula be classified?
    a. Liquidity ratio
    b. Valuation ratio
    c. Debt and solvency ratio
    d. Profitability ratio

29. How might return on capital employed be classified?
    a. Profitability ratio
    b. Valuation ratio
    c. Debt and solvency ratio
    d. Cash flow ratio

30. How might the debt ratio be classified?
    a. Liquidity ratio
    b. Debt and solvency ratio
    c. Valuation ratio
    d. Operating performance ratio

31. How might the debt to equity ratio be classified?
    a. Liquidity ratio
    b. Valuation ratio
    c. Debt and solvency ratio
    d. Cash flow ratio

32. How might the equity to assets ratio be classified?
    a. Liquidity ratio
    b. Valuation ratio
    c. Operating performance ratio
    d. Debt and solvency ratio

33. How might the capitalization ratio be classified?
    a. Debt and solvency ratio
    b. Valuation ratio
    c. Operating performance ratio
    d. Cash flow ratio

34. How might the cash flow to debt ratio be classified?
    a. Liquidity ratio
    b. Debt and solvency ratio
    c. Operating performance ratio
    d. Valuation ratio

35. How might the fixed asset turnover ratio be classified?
    a. Liquidity ratio
    b. Valuation ratio
    c. Operating performance ratio
    d. Cash flow ratio

36. How might the sales or revenue per employee ratio be classified?
    a. Liquidity ratio
    b. Valuation ratio
    c. Debt and solvency ratio
    d. Operating performance ratio

37. How might the operating cycle be classified?
    a. Operating performance ratio
    b. Valuation ratio
    c. Debt and solvency ratio
    d. Cash flow ratio

38. How might the cash conversion cycle be classified?
    a. Liquidity ratio
    b. Operating performance ratio
    c. Debt and solvency ratio
    d. Valuation ratio

39. How might the accounts receivable turnover ratio be classified?
    a. Liquidity ratio
    b. Valuation ratio
    c. Operating performance ratio
    d. Cash flow ratio

40. How might the accounts payable turnover ratio be classified?
    a. Liquidity ratio
    b. Valuation ratio
    c. Debt and solvency ratio
    d. Operating performance ratio

41. How might the inventory turnover ratio be classified?
    a. Operating performance ratio
    b. Valuation ratio
    c. Debt and solvency ratio
    d. Cash flow ratio

42. How might the operating cash flow / sales ratio be classified?
    a. Liquidity ratio
    b. Cash flow ratio
    c. Debt and solvency ratio
    d. Operating performance ratio

43. How might the free cash-flow / operating cash flow ratio be classified?
    a. Liquidity ratio
    b. Valuation ratio
    c. Cash flow ratio
    d. Operating performance ratio

44. How might the cash flow coverage ratio be classified?
    a. Liquidity ratio
    b. Valuation ratio
    c. Debt and solvency ratio
    d. Cash flow ratio

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    b. Valuation ratio
    c. Debt and solvency ratio
    d. Cash flow ratio

51. How might the dividend payout ratio be classified?
    a. Liquidity ratio
    b. Operating performance ratio
    c. Valuation ratio
    d. Cash flow ratio

52. How might the enterprise market value ratio be classified?
    a. Liquidity ratio
    b. Cash flow ratio
    c. Debt and solvency ratio
    d. Valuation ratio

Ratios and Analysis Answers & Explanations

1. What is commonly used to help interpret financial statements?
   a. Ratios
Analysts use ratios to interpret information

2. What is a useful analytical tool for stakeholders?
   a. Financial ratios
An investor can use the balance sheet to calculate ratios to measure the financial strength of a business

3. Financial ratios are generally designed for:
   d. All of the above
Financial ratios are designed to provide useful information to stakeholders, which may be anyone affected by the business: owners, employees, managers, creditors, customers, government, and others

4. Financial ratios are used in which of the following types of analysis?
   d. All of the above
Analysis has different forms or purposes including financial, managerial, economic, market, and competitive

5. The result of ratio analysis may facilitate:
   a. Decision making
Financial ratios show the relationship between different data points in order to make decisions

6. Ratio analysis may be useful to both internal and external stakeholders:
   a. True
Both internal users (managers and executives) and external users (lenders and investors) may benefit from ratio analysis

7. How might an external investor use financial analysis?
   b. Analyze balance sheet strength
External stakeholders such as investors will likely use publically available financial statement information, such as the balance sheet, to perform investment analysis

8. What might peer analysis refer to?
   c. Comparison across similar industries
Ratios and analysis may also be used to evaluate a company relative to competitors, known as peer analysis

9. What is an inherent limitation to financial ratios?
   a. Based on historical information
Ratios are based on historical information and history is never guaranteed to repeat itself

10. What financial statements may be evaluated using ratio analysis?
   d. All of the above
Nearly any statement or numeric data may be analyzed, but the usefulness of the information may vary

11. What type of financial ratio is specific to a particular type of business?
    b. Industry specific
Industry specific ratios analyze data that is relevant to a certain industry, such analyzing jet fuel costs across different airlines

12. What is something liquidity ratios measure or "do"?
    c. Measure the ability to meet short-term financial obligations
Liquidity ratios are used to evaluate how well a company is able to meet its short-term financial obligations

13. What is something profitability ratios measure or "do"?
    b. Identify the level and quality of earnings
Profitability ratios are used to identify the level and quality of earnings

14. What is something debt or solvency ratios measure or "do"?
    a. Give insight into financial leverage
Debt or solvency ratios give insight into financial leverage and ability to meet long-term debt obligations

15. What is something operating performance ratios measure or "do"?
    c. Identify aspects of operations and efficiency
Operating performance ratios identify aspects of operations and efficiency, and insight into the timing of cash inflows and outflows

16. What is something cash flow ratios measure or "do"?
    d. Identify relative cash positions
Cash flow ratios identify relative cash positions

17. What is something valuation ratios measure or "do"?
    a. Analyze from an investment perspective
Valuation ratios are concerned with identifying company valuation, mostly from an investment perspective

18. What is something industry specific ratios measure or "do"?
    b. Identify measures particular to the industry
Ratios that provide information specific to certain industries that may not apply to all businesses

19. How might the current ratio be classified?
    c. Liquidity ratio
The current ratio (liquidity ratio) (also known as the working capital ratio) is the broadest measure of short-term liquidity because it takes into consideration all available liquid assets, including inventory and accounts receivable

20. How might the quick ratio be classified?
    d. Liquidity ratio
The quick ratio (liquidity ratio) is a more conservative liquidity indicator because it excludes inventory from the numerator

21. How might the cash ratio be classified?
    a. Liquidity ratio

The cash ratio (liquidity ratio) measures cash and cash equivalent balances relative to current liabilities

22. How might the times interest earned ratio be classified?
    b. Liquidity ratio

The times interest ratio (liquidity ratio) is a basic measure of the ability to cover interest payments

23. How might the profit margin ratio be classified?
    c. Profitability ratio

The profit margin ratio (profitability ratio) is an important measure and point of consideration for any user measuring the total profit of a company relative to total sales

24. How might gross margin be classified?
    d. Profitability ratio

The gross margin measure (profitability ratio) measures the relationship between sales and cost of goods sold

25. How might effective tax rate be classified?
    a. Profitability ratio

The effective tax rate (profitability ratio) shows the overall relationship between income earned and taxes paid

26. How might return on assets be classified?
    b. Debt and solvency ratio

The return on assets ratio (ROA) (profitability ratio) measures the relationship between net earnings and assets

27. How might return on equity be classified?
    c. Profitability ratio

Return on equity (ROE) (profitability ratio) measures profitability relative to shareholder investment, or equity

28. How might the DuPont formula be classified?
    d. Profitability ratio

The DuPont formula (profitability ratio) is an alternative approach to evaluating return on equity, effectively splitting the traditional ROE ratio into three significant components: profit margin, asset turnover and financial leverage, to better understand changes in ROE over time using trend analysis

29. How might return on capital employed be classified?
    a. Profitability ratio

Return on capital employed (profitability ratio), or "ROCE" is a similar measure to return on equity, but gives more consideration to the effects of debt and leverage relative to earnings

30. How might the debt ratio be classified?
    b. Debt and solvency ratio

The debt ratio (debt and solvency ratio) is the most basic indicator of solvency which identifies the percentage of assets that are funded by liabilities

31. How might the debt to equity ratio be classified?
    c. Debt and solvency ratio

The debt to equity ratio (debt and solvency ratio) provides a different perspective on the manner in which a company funds its assets

32. How might the equity to assets ratio be classified?
    d. Debt and solvency ratio

In almost all cases, a strong equity to assets ratio (debt and solvency ratio) is a positive sign, especially from a risk or solvency perspective

33. How might the capitalization ratio be classified?
    a. Debt and solvency ratio

The capitalization ratio (debt and solvency ratio) is a key identifier of financial leverage, or operational leverage which can be broadly thought of as financial or investment risk

34. How might the cash flow to debt ratio be classified?
    b. Debt and solvency ratio

Cash flow to debt (debt and solvency ratio) is a broad, top level indicator of solvency

35. How might the fixed asset turnover ratio be classified?
    c. Operating performance ratio

The fixed assets turnover ratio (operating performance ratio) measures how efficiently or effectively a company employees its fixed assets to generate sales

36. How might the sales or revenue per employee ratio be classified?
    d. Operating performance ratio

Sales or revenue per employee (operating performance ratio) uses average employee figures for the reporting period analyzed compared to sales

37. How might the operating cycle be classified?
    a. Operating performance ratio

The operating cycle (operating performance ratio) is a concept that estimates the average the number of days a company takes to convert inventory to cash by combining the impacts of both the time taken to sell inventory and the time taken to collect cash from accounts receivable

38. How might the cash conversion cycle be classified?
    b. Operating performance ratio

The cash conversion cycle (operating performance ratio) measures the time between cash outflows and cash inflows resulting from the primary business line, or production process

39. How might the accounts receivable turnover ratio be classified?
    c. Operating performance ratio

Accounts receivable turnover (operating performance ratio) gives an average for the number of times (expressed in days) that a company takes to collect its outstanding receivables

40. How might the accounts payable turnover ratio be classified?

  d. Operating performance ratio

The principles underlying the accounts payable turnover ratio (operating performance ratio) are the same as for the accounts receivable turnover ratio, with the exception that accounts payable (liability account) is being addressed

41. How might the inventory turnover ratio be classified?

  a. Operating performance ratio

Inventory turnover (operating performance ratio) provides the average number of times inventory is sold during a reporting period

42. How might the operating cash flow / sales ratio be classified?

  b. Cash flow ratio

The operating cash flow / sales ratio (cash flow ratio) gives a very broad or general idea about how well a company can convert sales into cash

43. How might the free cash-flow / operating cash flow ratio be classified?

  c. Cash flow ratio

Free cash-flow / operating cash flow (cash flow ratio) is a significant ratio for users interested in understanding cash that may be available for additional activities

44. How might the cash flow coverage ratio be classified?

  d. Cash flow ratio

The cash flow coverage ratio (cash flow ratio) estimates a company’s ability to meet interest expense with available free cash flow

45. How might the price/book value (price to book or P/B ratio) ratio be classified?

  a. Valuation ratio

Price/book value (price to book or P/B ratio) (valuation ratio) compares current market value to current book value

46. How might the earnings per share (EPS) ratio be classified?

  b. Valuation ratio

Earnings per share (EPS) (valuation ratio), is the most commonly expressed, and most important, measure of company valuation

47. How might the price to earnings per share (P/E Ratio) ratio be classified?

  c. Valuation ratio

Price to earnings per share (P/E Ratio) (valuation ratio) shows the relation between the market price of a stock and the underlying earnings on a per share basis

48. How might the price/earnings to growth ratio (PEG) ratio be classified?

  d. Valuation ratio

Price/earnings to growth ratio (PEG) (valuation ratio) takes into account company earnings growth in evaluating potential investment opportunities

49. How might the price to sales ratio (P/S) ratio be classified?
    a. Valuation ratio

The price to sales ratio (P/S) (valuation ratio) relates the company price per share to sales

50. How might the dividend yield ratio be classified?
    b. Valuation ratio

The dividend yield ratio (valuation ratio) calculates the ratio between dividends received relative to a company's stock price

51. How might the dividend payout ratio be classified?
    c. Valuation ratio

The dividend payout ratio (valuation ratio) simply shows the relationship between dividends paid and net income for a given reporting period

52. How might the enterprise market value ratio be classified?
    d. Valuation ratio

Enterprise market value (valuation ratio) is a simple method for making quick valuation assessments of a company, viewing it as an entire economic entity or enterprise and doing so from an acquisition perspective

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Debits and Credits III Questions

1. Sell amortizable asset for a loss
    a. Debit cash, Debit accumulated amortization, Credit loss, Credit intangible asset
    b. Debit cash, Debit accumulated amortization, Debit gain, Credit intangible asset
    c. Debit common stock, Debit accumulated amortization, Debit loss, Credit intangible asset
    d. Debit cash, Debit accumulated amortization, Debit loss, Credit intangible asset

2. Sell amortizable asset for a gain
    a. Debit cash, Debit accumulated amortization, Credit gain, Credit intangible asset
    b. Debit cash, Credit accumulated amortization, Credit gain, Credit intangible asset
    c. Debit common stock, Debit accumulated amortization, Credit gain, Credit intangible asset
    d. Debit common stock, Credit accumulated amortization, Credit gain, Credit intangible asset

3. Sell depreciated truck for a gain
    a. Debit cash, Debit accumulated depreciation, Debit gain, Credit truck asset
    b. Debit cash, Debit accumulated depreciation, Credit gain, Credit truck asset
    c. Debit cash, Debit accumulated depreciation, Credit gain, Credit accounts receivable
    d. Debit cash, Debit accumulated depreciation, Credit loss, Credit truck asset

4. Sell depreciated truck for a loss
    a. Debit cash, Debit accumulated depreciation, Debit gain, Credit truck asset
    b. Debit prepaids, Debit accumulated depreciation, Debit loss, Credit truck asset
    c. Debit cash, Debit accumulated depreciation, Debit loss, Credit truck asset
    d. Debit Prepaids, Debit accumulated depreciation, Debit loss, Credit truck asset

5. Record partnership investment activity: capital gain, interest income, dividends
    a. Over it
    b. Debit investment in partnership, Debit capital gain, Credit interest income, Credit dividend income
    c. Debit investment in partnership, Credit capital gain, Credit interest expense, Credit dividend income
    d. Debit investment in partnership, Credit capital gain, Credit interest income, Credit dividend income

6. Record profitable partnership investment activity: capital gain, interest income, investment expense
    a. Debit investment in partnership, Debit investment expense, Credit capital gain, Credit interest income
    b. Debit investment in partnership, Credit investment expense, Credit capital gain, Credit interest income
    c. Debit investment in partnership, Debit investment expense, Debit capital gain, Credit interest income
    d. Over it

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7. Capitalize already expensed (in error) factory overhead cost to work-in-process:
   a. Debit expense, Credit work-in-process
   b. Debit work-in-process, Credit expense
   c. Debit cost of goods sold, Credit expense
   d. Debit my heart, Credit expense

8. Close profitable period to income summary
   a. Don't care, software does this for me
   b. Debit income summary, Debit revenue, Debit retained earnings, Credit expense
   c. Debit income summary, Debit revenue, Credit expense, Credit retained earnings
   d. Debit income summary, Credit revenue, Credit expense, Credit retained earnings

9. Close loss period to income summary
   a. Don't care, software does this for me
   b. Debit income summary, Debit revenue, Debit retained earnings, Credit expense
   c. Debit income summary, Debit revenue, Credit expense, Credit retained earnings
   d. Debit retained earnings, Debit revenue, Credit income summary, Credit expense

10. Record cash sale with sales tax
   a. Debit cash, Credit cash sales, Credit sales tax liability
   b. Debit cash, Debit cash sales, Credit sales tax liability
   c. Debit sales tax expense, Credit sales tax liability, Credit tax
   d. Don't push this coin

Debits and Credits III Answers & Explanations

1. Sell amortizable asset for a loss
    d. Debit cash, Debit accumulated amortization, Debit loss, Credit intangible asset
On the sale of an intangible (amortizable asset) cash will likely be received, asset removed from the books along with accumulated amortization, and a gain or loss realized

2. Sell amortizable asset for a gain
    a. Debit cash, Debit accumulated amortization, Credit gain, Credit intangible asset
On the sale of an intangible (amortizable asset) cash will likely be received, asset removed from the books along with accumulated amortization, and a gain or loss realized

3. Sell depreciated truck for a gain
    b. Debit cash, Debit accumulated depreciation, Credit gain, Credit truck asset
Upon the sale of a fixed asset, cash will likely be received, asset removed from the books along with accumulated depreciation, and a gain or loss realized

4. Sell depreciated truck for a loss
    c. Debit cash, Debit accumulated depreciation, Debit loss, Credit truck asset
Upon the sale of a fixed asset, cash will likely be received, asset removed from the books along with accumulated depreciation, and a gain or loss realized

5. Record partnership investment activity: capital gain, interest income, dividends
    d. Debit investment in partnership, Credit capital gain, Credit interest income, Credit dividend income
Recording of a partnership investment will increase or decrease the value of the asset

6. Record profitable partnership investment activity: capital gain, interest income, investment expense
    a. Debit investment in partnership, Debit investment expense, Credit capital gain, Credit interest income
Recording of a partnership investment will increase or decrease the value of the asset

7. Capitalize already expensed (in error) factory overhead cost to work-in-process:
    b. Debit work-in-process, Credit expense
Work-in-process is an asset account that increases as inventory is being manufactured. Overhead expenses directly related to the product should be capitalized, not expensed.

8. Close profitable period to income summary
    c. Debit income summary, Debit revenue, Credit expense, Credit retained earnings
The process of closing the income summary involves reversing out the normal temporary accounts (income statement) and recording the profit or loss to retained earnings

9. Close loss period to income summary
    d. Debit retained earnings, Debit revenue, Credit income summary, Credit expense
The process of closing the income summary involves reversing out the normal temporary accounts (income statement) and recording the profit or loss to retained earnings

10. Record cash sale with sales tax
    a. Debit cash, Credit cash sales, Credit sales tax liability

Sales tax is recorded as a liability until cash is paid

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