

SELF STUDY QUESTIONS

Fill in the Blank

In the space provided, write the word or words to either replace the question mark or answer the question.

1. The ? is a basic underlying accounting assumption that states that accounting systems should be established to provide information to all users in a timely manner.

2. Any 12-month accounting period adopted by a business is called its "accounting period" or its ?.

3. The ? year of a company begins and ends when the company's business activity is at its lowest point.

4. A(n) ? is a statement of the assets, liabilities, and owner's equity of an entity on a given date. (Use most frequently used name.)

5. The "Statement of Financial Position" is another name for the ?. (Answer should be the most frequently used name.)

6. The "Statement of Financial Condition" is another name for the ?. (Answer should be the most frequently used name.)

7. The "Position Statement" is another name for the ?. (Answer should be the most frequently used name.)

8. Monthly and quarterly financial statements are often referred to as ?, because they are prepared in between the year-end statements.

9. Probable future economic benefits obtained or controlled by a particular entity as a result of past or present transactions are referred to as ?.

10. ? consist of cash and other assets that are expected to be converted to cash or consumed during the normal operating cycle of the business or one year, whichever is longer.

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- 11. The ? is that period of time starting when cash is paid out in purchasing items to be sold to customers, and ending when cash is received in payment of such sales.

- 12. Trademarks, copyrights, patents, and goodwill are examples of what type of asset?

- 13. Obligations or responsibilities, based upon past or present transactions, to convey assets or to perform services sometime in the future are referred to as ?.

- 14. Obligations or responsibilities, based upon past or present transactions, to convey current assets or to perform services within one year or the normal operating cycle, whichever is longer, are referred to as ?.

- 15. An obligation that arises because goods or services, having been consumed or expired in the current accounting period, will required payment in a future accounting period is called ?.

- 16. The financial interest of the owners, arising from the original, and possibly subsequent, investments and accumulated profits should be referred to as ?.

- 17. What type of legal organization would show the accounts "Common Stock" and "Retained Earnings" on its balance sheet?

- 18. A(n) ? consists of a summary of the revenues and expenses of an entity for a specific period of time. (Answer should be the most frequently used name.)

- 19. The "Report of Earnings" is another name for the ?. (Answer should be the most frequently used name.)

- 20. The "Statement of Operations" is another name for the ?. (Answer should be the most frequently used name.)

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21. The "Statement of Profit and Loss" is another name for the ?. (Answer should be the most frequently used name.)

22. The difference between net sales and cost of goods sold should be referred to as ?.

23. One of the basic underlying assumptions in accounting is the ?. Under this assumption an accounting entity would be viewed, in the absence of evidence to the contrary, as one expected to continue operating indefinitely into the future.

24. The four basic underlying assumptions in accounting, as discussed in class, are ?.

25. The FASB has indicated that ? and ? are the two primary qualities that make accounting information useful for decision-making.

26. According to the FASB, for information to be ?, it should have predictive value and/or feedback value.

27. The components of relevant information that can be used as an input to predict future outcomes is referred to as ? value.

28. The quality of information that enables users to confirm or correct prior expectations is referred to as ? value.

29. The enhancing quality of information that means having information available to decision makers in time to be capable of influencing their decisions is referred to as ?.

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30. The enhancing quality of information that specifies that information about a reporting entity is more useful if it can be compared with similar information about other entities is referred to as ?.

31. ? is the faithful depiction in financial reports of economic phenomena.

32. The three components of faithful representation are ?, ? and ?.

33. The component of faithful representation that calls for all information necessary for a user to understand the phenomenon being depicted is referred to as ?.

34. The component of faithful representation that calls for the selection or presentation of financial information without bias is referred to as ?.

35. The component of faithful representation that calls for no errors or omissions in the description of the phenomenon is referred to as ?.

36. The ? accounting principle calls for accounting valuation based on the price established by the financial exchange.

SELF STUDY QUESTIONS

Fill in the Blank

Section 2

Module 2

In the space provided, write the word or words to either replace the question mark or answer the question.

1. The ? principle requires that against the revenues recognized during an accounting period, we should match the expenses that were incurred in order to obtain the revenues.

2. ? entries consist of adjustments made at the end of each accounting period to previously recorded data in order to update the accounts.

3. The cost of goods or services that have been consumed or have expired in the current accounting period but will be paid in a future accounting period are called ? expenses.

4. Revenues for which cash has not been received but that should be recognized as earned in the current accounting period are called ? revenues.

5. ? revenue occurs when an entity collects payment for revenues that, at the end of the accounting period, have not yet been fully earned.

6. A(n) ? expense occurs when services or supplies were purchased or otherwise acquired but not consumed or used by the end of the accounting period.

7. How would unearned revenue be shown in the financial statements? (asset, liability, owners' equity, revenue, or expense)

8. A(n) ? is the general name for an account the balance of which is subtracted from the balance of an associated account to show a more appropriate amount for the items recorded in the associated account.

9. The matching principle requires the use of ? basis accounting, as opposed to cash basis accounting, to record and report expenses.

SELF STUDY QUESTIONS

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1. The journal entries by which all nominal accounts are reduced to zero and the net income or net loss is determined and transferred to the owners' equity are known as ? entries.

2. Balance sheet accounts are referred to as permanent, or ?, accounts in the sense that they are not closed at the end of the accounting period.

3. Income statement accounts are referred to as temporary, or ?, accounts in the sense that they are closed at the end of the accounting period.

Circle the letter of the best answer.

1. The basic underlying accounting assumption that states that accounting systems should be established to provide information to all users in a timely manner is the
 - A. realization principle
 - B. stable unit of measure assumption
 - C. time period assumption
 - D. entity assumption

2. During the lifetime of an entity accountants produce financial statements at arbitrary points in time in accordance with which basic accounting concept?
 - A. objectivity
 - B. periodicity
 - C. conservatism
 - D. matching

3. Any 12-month accounting period adopted by a business is called its "accounting period" or its
 - A. operating cycle
 - B. business cycle
 - C. fiscal year
 - D. natural business year
 - E. interim period

4. Another name for the periodicity concept is the
 - A. arm's-length transaction concept
 - B. time period assumption
 - C. accrual concept
 - D. matching

5. The period of time that begins and ends when the company's business activity is at its lowest point is referred to as the
 - A. operating cycle
 - B. business cycle
 - C. fiscal year
 - D. natural business year

6. A statement of the assets, liabilities, and owner's equity of an entity on a given date is most frequently called a
 - A. trial balance
 - B. balance sheet
 - C. income statement
 - D. interim statement

7. Another name for the balance sheet is the
- A. statement of changes in financial position
 - B. statement of financial position
 - C. statement of earnings
 - D. retained earnings statement
 - E. A and B above
8. Which one of the titles listed below is not a synonym for the balance sheet?
- A. statement of operations
 - B. position statement
 - C. statement of financial position
 - D. statement of financial condition
9. For accounting purposes, the term current assets is used to designate cash and other assets or resources commonly identified as:
- A. those which can be liquidated in the normal course of business during the following fiscal year
 - B. those which will be realized in cash or sold or consumed during the normal operating cycle of the business
 - C. those which are reasonably expected to be realized in cash or sold or consumed during the next accounting year or the normal operating cycle of the business, whichever is longer
 - D. those which can be used for the payment of current liabilities or consumed during the normal operating cycle of the business
 - E. none of the above
10. The basis for classifying assets as current or noncurrent is the period of time normally required by the accounting entity to convert cash invested in
- A. inventory back into cash, or 12 months, whichever is shorter
 - B. receivables back into cash, or 12 months, whichever is longer
 - C. tangible fixed assets back into cash, or 12 months, whichever is longer
 - D. inventory back into cash, or 12 months, whichever is longer
11. The period of time starting when cash is paid out in purchasing items to be sold to customers, and ending when cash is received in payment of such sales is referred to as the
- A. operating cycle
 - B. business cycle
 - C. fiscal year
 - D. natural business year
 - E. cash return period

12. For accounting purposes the "operating cycle concept"
- A. causes the distinction between current and non-current items to depend on whether they will affect cash within one year
 - B. permits some assets to be classified as current even though they are more than one year removed from becoming cash
 - C. has become obsolete
 - D. affects the income statement but not the balance sheet
13. The operating cycle of a business is that span of time which
- A. coincides with the economy's business cycle which runs from one trough of the economy's business activity to the next
 - B. corresponds with its natural business year which runs from one trough of the particular firm's business activity to the next
 - C. is set by the industry's trade association usually on an average length of time for all firms which are members of the association
 - D. runs from cash disbursement for items of inventory through their sale to the realization of cash from sale
14. The current asset section of the balance sheet should include
- A. machinery
 - B. patents
 - C. goodwill
 - D. taxes payable
 - E. none of the above
15. Current assets are usually listed on a balance sheet in
- A. decreasing order of liquidity
 - B. increasing order of liquidity
 - C. a random fashion
 - D. decreasing order of profitability
16. A summary of the revenues and expenses of an entity for a specific period of time is most frequently called a
- A. trial balance
 - B. balance sheet
 - C. income statement
 - D. interim statement
17. Which one of the titles listed below is not a synonym for the income statement?
- A. report of earnings
 - B. statement of operations
 - C. position statement
 - D. profit and loss statement

18. The income statement is also known as
- A. the trial balance
 - B. the general journal
 - C. the statement of operations
 - D. a nominal account
 - E. none of the above
19. To be classified as a current asset, a marketable security must have a ready market and
- A. be available to management for use in short run operations
 - B. be traded on a recognized national exchange
 - C. have a current market value in excess of original cost
 - D. have been owned less than one year
20. Assuming the continuation of operations of an accounting entity in the absence of evidence to the contrary is an example of the basic concept of
- A. substance over form
 - B. going concern
 - C. objectivity
 - D. accounting entity
 - E. periodicity
21. The two primary qualities that make accounting information useful for decision making are
- A. comparability and consistency
 - B. materiality and timeliness
 - C. relevance and freedom from bias
 - D. reliability and faithful representation
 - E. none of the above
22. Accounting information is considered to be relevant when it
- A. can be depended on to represent the economic conditions and events that it is intended to represent
 - B. is capable of making a difference in a decision
 - C. is understandable by reasonably informed users of accounting information
 - D. all of the above
 - E. none of the above
23. Neutrality of information means that it
- A. provides benefits which are at least equal to the costs of its preparation
 - B. can be compared with similar information about an enterprise at other points in time
 - C. would have no impact on a decision maker
 - D. is free from bias in the selection or presentation of financial information
 - E. none of the above

24. Which of the following is an ingredient of the primary quality of relevance?
- A. predictive value
 - B. materiality
 - C. understandability
 - D. verifiability
25. Which of the following is an ingredient of the primary quality of faithful representation?
- A. understandability
 - B. free from error
 - C. predictive value
 - D. materiality
26. The ability through consensus among measurers to ensure that information represents what it purports to represent is an example of the concept of
- A. relevance
 - B. verifiability
 - C. comparability
 - D. feedback value
27. When assets are acquired, they should be recorded in the accounts in accordance with the
- A. exception principle
 - B. matching principle
 - C. cost principle
 - D. reporting principle
 - E. none of the above

Circle the letter of the best answer.

1. The accounting principle of matching is best demonstrated by
 - A. not recognizing any expense unless some revenue is realized
 - B. associating effort (cost) with accomplishment (revenue)
 - C. recognizing prepaid rent received as revenue
 - D. none of the above

2. The matching principle
 - A. assigns the price paid for any resource as its appropriate dollar measure
 - B. is the difference between revenues and expenses for the period
 - C. indicates when the sacrifices made to generate revenues should be expensed
 - D. is the same as the revenue recognition principle
 - E. none of the above

3. Why are certain costs of doing business capitalized when incurred and then depreciated or amortized over subsequent accounting cycles?
 - A. to reduce the federal income tax liability
 - B. to aid management in cash-flow analysis
 - C. to match the costs of production with revenues as earned
 - D. to adhere to the revenue principle

4. The idea that all expenses incurred in generating revenues should be recognized in the same period as those revenues is the
 - A. time period assumption
 - B. realization concept
 - C. matching concept
 - D. revenue recognition concept

5. Which of the following statements about adjusting entries is true?
 - A. they are recorded on a daily basis as transactions occur
 - B. they are not posted to the general ledger
 - C. they are usually made at the end of an accounting period
 - D. none of the above are true

6. An accrued expense can best be described as an amount
 - A. paid and currently matched with earnings
 - B. paid and not currently matched with earnings
 - C. not paid and not currently matched with earnings
 - D. not paid and currently matched with earnings
 - E. none of the above

7. Which of the following is considered to be an accrued liability?
- A. cash dividends payable
 - B. wages payable
 - C. rent revenue collected one month in advance
 - D. portion of long-term debt payable in next fiscal year
8. Revenue items that are earned but have not been collected or recognized are called:
- A. unearned revenues
 - B. deferred revenues
 - C. unrecorded revenues
 - D. accrued revenues
9. If a company received January's (20x4) rent from a tenant in December (20x3), that rent would be:
- A. a revenue in 20x3
 - B. an asset in 20x3
 - C. an expense in 20x3
 - D. a liability in 20x3
10. An example of a contra account would be
- A. accumulated depreciation
 - B. rent expense
 - C. interest payable
 - D. rent receivable
11. The premium on a three-year insurance policy which expires in 20x5 was paid in advance in 20x1. What is the effect of this transaction on the 20x1 financial statements for each of the following?
- | | <u>Prepaid assets</u> | <u>Expenses</u> |
|----|-----------------------|-----------------|
| A. | increase | no effect |
| B. | increase | increase |
| C. | no effect | increase |
| D. | no effect | no effect |
12. The accounting principle that would justify the use of a non-preferred accounting method over a preferred accounting method is called the
- A. going concern concept
 - B. conservatism principle
 - C. matching principle
 - D. materiality principle
 - E. full disclosure principle

Circle the letter of the best answer.

1. An Unearned Revenue account is usually considered to be a(n)
 - A. liability
 - B. asset
 - C. revenue
 - D. expense

2. Prepaid expense account are usually classified as
 - A. assets
 - B. liabilities
 - C. expenses
 - D. revenues

3. Closing entries usually
 - A. bring all real account balances to zero
 - B. bring all nominal account balances to zero
 - C. adjust all nominal accounts to their proper balances
 - D. adjust all real accounts to their proper balances

4. Which of the following accounts is not a real account?
 - A. cash
 - B. rental income
 - C. accounts payable
 - D. retained earnings
 - E. common stock

5. Which of the following accounts would be closed at year-end?
 - A. common stock
 - B. prepaid rent
 - C. cost of goods sold
 - D. accounts payable

6. Which of the following accounts would be closed out, via closing entries, at the end of an accounting entity's fiscal year?
 - A. accumulated depreciation - equipment
 - B. prepaid service income
 - C. copyrights
 - D. supplies
 - E. none of the above

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Section 2

Multiple Choice

Module 3

7. Which of the following accounts would be closed out, via closing entries, at the end of an accounting entity's fiscal year?
- A. prepaid service income
 - B. J. Doe, capital
 - C. accumulated depreciation - building
 - D. purchase discounts
 - E. supplies

SELF STUDY QUESTIONS

Essay

Section 2

Module 1

1. What three items are included in the heading of any financial statement?
2. How should current assets be defined?
3. What are the two tests that investments must meet in order to be considered current assets?
4. How should current liabilities be defined?
5. The life of a business is divided into specific time period, usually a year, to measure results of operations for each such time period and to portray financial conditions at the end of each period. This practice is based on the accounting assumption that the life of the business consists of a series of time periods and that it is possible to measure accurately the results of operations for each period. Comment on the validity and necessity of this assumption.

SELF STUDY QUESTIONS

Section 2

Essay

Module 2

1. Why are the balances of some of a concern's accounts normally incorrect for statement purposes at the end of an accounting period even though all transactions were correctly recorded?
2. What is an accrued expense? Give an example.
3. How does unearned revenue arise? Give an example of unearned revenue.
4. What is accrued revenue? Give an example.
5. What is a prepaid expense? Give an example.
6. During class we discussed various basic underlying accounting assumptions and various accounting principles and concepts. Describe and indicate the significance of the following:
 - Entity Concept
 - Going Concern Concept
 - Unit of Measure
 - Timeliness of Information Concept
 - Revenue Principle
 - Matching Principle
 - Relevance and Faithful Representation of Information
 - Historical Cost Principle
 - Materiality Principle

SELF STUDY QUESTIONS

Essay

Section 2

Module 3

1. Explain the nature and purpose of
 - (a) adjusting entries
 - (b) closing entries
2. What is the difference between adjusting and closing entries?
3. What accounts are affected by closing entries? What accounts are not affected?
4. Why is a post-closing trial balance prepared?