Financial Accounting Quiz

Use this key to check answers and read the explanations.

1. Which item is a liability for a repair shop?
   - A. An unpaid bill the shop owes its parts supplier
   - B. An unpaid invoice a customer owes the shop
   - C. A workbench the shop owns
   - D. Cash in the shop’s register

   Correct answer: A. An unpaid bill the shop owes its parts supplier
   The supplier bill is an obligation the shop still has to pay. The customer invoice, workbench, and cash are assets of the shop.

2. Which statement shows a business’s revenues and expenses for the three months ending June 30?
   - A. Statement of cash flows
   - B. Balance sheet
   - C. Income statement
   - D. Statement of retained earnings

   Correct answer: C. Income statement
   An income statement summarizes revenues and expenses for a period and shows the resulting net income or loss.

3. A pottery studio has $8,600 in assets and $3,400 in liabilities. What is its total equity?
   - A. $3,400
   - B. $5,200
   - C. $8,600
   - D. $12,000

   Correct answer: B. $5,200
   Assets equal liabilities plus equity. Subtract $3,400 in liabilities from $8,600 in assets to find $5,200 in equity.

4. A corporation issues new shares to an investor in exchange for $2,500 in cash. Which totals increase as a result of this transaction?
   - A. Assets only
   - B. Assets and liabilities
   - C. Liabilities and equity
   - D. Assets and equity

   Correct answer: D. Assets and equity
   The corporation receives $2,500 in cash, increasing assets, and issues stock, increasing equity by the same amount.

5. A sign shop using accrual accounting completes a design job and sends an invoice the customer will pay next month. Which asset increases when the shop first records the job?

A. Cash
B. Accounts Receivable
C. Prepaid Expenses
D. Equipment

Correct answer: B. Accounts Receivable
The customer now owes the shop money for work already completed. The shop records that amount as Accounts Receivable until the customer pays.

6. A studio pays $96 in cash for cleaning completed that day. It had made no earlier entry for the cleaning. Which entry records the transaction?

A. Debit Cleaning Expense $96 and credit Cash $96.
B. Debit Cash $96 and credit Cleaning Expense $96.
C. Debit Cleaning Expense $96 and credit Accounts Payable $96.
D. Debit Accounts Payable $96 and credit Cash $96.

Correct answer: A. Debit Cleaning Expense $96 and credit Cash $96.
A debit increases Cleaning Expense for the service received. A credit decreases Cash for the amount paid that day.

7. A business borrows $900 from a bank and receives the loan proceeds in cash. How does it classify the $900 on its statement of cash flows?

A. Financing cash outflow
B. Operating cash inflow
C. Investing cash inflow
D. Financing cash inflow

Correct answer: D. Financing cash inflow
Borrowing brings cash into the business from a lender. Loan proceeds received are a financing inflow, even if the business later spends the cash on operations.

8. A framing shop using accrual accounting completes two jobs in November for $420 and $185. It has yet to collect on those jobs. It also receives $650 in November for a job it finished and recorded in October. What November revenue comes from these three jobs?

A. $1,070
B. $650
C. $605
D. $1,255

Correct answer: C. $605
November revenue is the amount earned from work completed in November. The two November jobs total $605. The $650 payment settles the October invoice.

9. A bindery began December with $700 in its Supplies account and recorded $225 more in purchases to that account. A month-end count finds $310 in supplies left. If the rest were used, how much Supplies Expense should it record for December?

A. $615
B. $310
C. $390
D. $925

Correct answer: A. $615
The bindery had $925 available in December. Subtract the $310 still on hand to find that it used $615 in supplies.

10. A trial balance has equal debit and credit totals. Assuming exactly one bookkeeping error occurred, which error could still leave those totals equal?

A. Entering a $400 debit as $40 while entering its $400 credit correctly
B. Recording only the debit side of a transaction
C. Recording only the credit side of a transaction
D. Leaving out an entire balanced transaction

Correct answer: D. Leaving out an entire balanced transaction
Omitting a whole balanced entry leaves out equal amounts on both sides. Matching totals show that debits and credits agree, even when a transaction is missing.

11. A workshop receives $1,200 in November for four equally priced classes from December through March. It initially credits Unearned Revenue for the full payment. It teaches only the December class by December 31. What adjustment should it make on that date?

A. Debit Cash $300 and credit Class Revenue $300.
B. Debit Unearned Revenue $1,200 and credit Class Revenue $1,200.
C. Debit Unearned Revenue $300 and credit Class Revenue $300.
D. Debit Class Revenue $300 and credit Unearned Revenue $300.

Correct answer: C. Debit Unearned Revenue $300 and credit Class Revenue $300.
Each class earns one-fourth of $1,200, or $300. Teaching the December class reduces the workshop’s liability by $300 and earns $300 of revenue. It already recorded the cash in November.

12. Employees earned $740 in wages in late December that will be paid in January. What happens to the December financial statements if the business leaves out the accrued wages adjustment?

A. Expenses and liabilities are both too high.
B. Expenses and liabilities are both too low.
C. Expenses are too low and liabilities are too high.
D. Expenses are too high and liabilities are too low.

Correct answer: B. Expenses and liabilities are both too low.
December should include the $740 cost of the employees’ work and the $740 the business owes them. Leaving out the adjustment understates both expenses and liabilities.

13. A machine enters service on January 1. It costs $18,000, has an estimated $3,000 residual value, and has a five-year useful life. Under straight-line depreciation, what are its first-year depreciation expense and December 31 book value?

A. $15,000 expense and $3,000 book value
B. $3,000 expense and $12,000 book value
C. $3,600 expense and $14,400 book value
D. $3,000 expense and $15,000 book value

Correct answer: D. $3,000 expense and $15,000 book value
The depreciable amount is $18,000 minus $3,000, or $15,000. Over five years that is $3,000 per year. After one year, book value is the $18,000 cost less $3,000 in accumulated depreciation.

14. A corporation starts the year with $8,400 in retained earnings. It has $3,750 in revenue, $2,570 in expenses, and declares and pays $320 in dividends. With no other changes, what amount of retained earnings goes on its year-end balance sheet?

A. $9,260
B. $9,580
C. $9,900
D. $8,720

Correct answer: A. $9,260
The income statement shows $1,180 in net income. Ending retained earnings are $8,400 plus that $1,180, less $320 in dividends, which gives $9,260 for the balance sheet.

15. At December close, a design firm finds $300 of work completed in December that it has yet to record or bill. It also finds $120 of unrecorded December utility costs to be paid in January. What changes when it records both accrual adjustments?

A. December net income rises by $420, and Cash is unchanged.
B. December net income rises by $180, and Cash rises by $180.
C. December net income rises by $180, and Cash is unchanged.
D. December net income falls by $120, and Cash falls by $120.

Correct answer: C. December net income rises by $180, and Cash is unchanged.
Record the $300 of revenue earned and the $120 of utilities used in December. The difference adds $180 to net income. These entries create a receivable and a payable and leave Cash unchanged.