Walsh College  
**Student Name:** _________________________________

**Fundamental Financial Accounting**

**Practice Evaluation Exam**

**Phone/Email:** __________________________

**Date:** _________________________________

This evaluation exam will be used to determine your knowledge of Financial Accounting and to assist the College in determining your appropriate curriculum.

**Topics:**
The following topics appear on this exam. Some of these topics are addressed in several questions, while others appear only once. This list is not meant to be all-inclusive; there are topics on the exam not on this list. Preparation for the exam should include review of these topics, referring to a Financial Accounting textbook.

<table>
<thead>
<tr>
<th>Topic</th>
<th>Topic</th>
</tr>
</thead>
<tbody>
<tr>
<td>Effect of accounting errors</td>
<td>Retained Earnings</td>
</tr>
<tr>
<td>Adjusting journal entries</td>
<td>Normal balances of accounts</td>
</tr>
<tr>
<td>Closing journal entries</td>
<td>Freight-out</td>
</tr>
<tr>
<td>Equipment</td>
<td>Trial Balance</td>
</tr>
<tr>
<td>Unearned Revenue/Accrued Revenue</td>
<td>Working Capital</td>
</tr>
<tr>
<td>Accrued Expense/Prepaid Expense</td>
<td>Accumulated Depreciation</td>
</tr>
<tr>
<td>Prepaid Insurance</td>
<td>Depreciation Expense</td>
</tr>
<tr>
<td>Freight In</td>
<td>Common stock</td>
</tr>
<tr>
<td>Sales Discounts</td>
<td>Dividends</td>
</tr>
<tr>
<td>Purchases of Inventory</td>
<td>Current ratio</td>
</tr>
<tr>
<td>Purchase Returns and Allowances</td>
<td>Current Assets</td>
</tr>
<tr>
<td>Purchase Discounts</td>
<td>Common stock</td>
</tr>
<tr>
<td>Sales Returns and Allowances</td>
<td>Dividends</td>
</tr>
<tr>
<td>Cost of Goods Sold</td>
<td>Current ratio</td>
</tr>
<tr>
<td>Gross Margin/Gross Profit</td>
<td>Current Assets</td>
</tr>
<tr>
<td>Book Value</td>
<td>Working Capital</td>
</tr>
<tr>
<td>Classification of accounts</td>
<td>Allowance for Doubtful Accounts</td>
</tr>
<tr>
<td>Journal entries</td>
<td>LIFO</td>
</tr>
<tr>
<td>The accounting equation</td>
<td>FIFO</td>
</tr>
<tr>
<td>Classification of accounts</td>
<td>Treasury Stock</td>
</tr>
</tbody>
</table>

**Exam Procedures:**
You may take the exam at the Troy Campus Testing Center in room 120, the University Center at Macomb Community College, or the Novi Campus. Present this form and the proctor will provide you with the appropriate evaluation exam. Please visit the testing center website for additional guidance. [http://www.walshcollege.edu/testingcenter](http://www.walshcollege.edu/testingcenter)

If you have any questions, please contact Deborah Mourray, Accounting Academic Advisor at: Deborah.Mourray@walshcollege.edu

248-823-1290 Office  
248-705-8819 Cell  
248-823-1161 Fax

Score: ________  Pass/Fail

<table>
<thead>
<tr>
<th>Routing</th>
<th>Name</th>
<th>Date</th>
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<tbody>
<tr>
<td>Advisor</td>
<td></td>
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<tr>
<td>Testing</td>
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</tbody>
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Walsh College

Fundamental Financial Accounting

Practice Evaluation Exam

1. This exam is 20 multiple choice questions. All answers must go on the Scantron card. Be sure to fully erase any stray marks on the Scantron before completion of the exam. Note that the Scantron card is “scrambled” and you must carefully mark the proper line. For example, your answer to Question #1 will not be marked on the top line of the Scantron; instead, you must locate the line for #1, which is included in the top ten lines of the Scantron.

2. You may make notations on the exam, but they will not be a factor in your score. No scrap paper is allowed. No reference to books or notes is allowed. You are allowed the following during this exam:
   - Pencils
   - Erasers
   - Calculator provided by Walsh College

3. Answer all 20 questions. Be sure your name is on both the Scantron card and the exam. Do not include your social security number. Provide your signature and today’s date in the box below.

4. When you have completed the Exam, place the Exam and the Scantron in the white envelope. Write your name and date on the white envelope. Seal the white envelope. Return the gold envelope and the white envelope to the Proctor.

5. You are allowed 1 hour for this exam. Passing score is 75%.

6. The academic advisor will inform you of your score. You will not be allowed to review the exam or your Scantron card.

I acknowledge that I have been directed to work individually on this exam.

I certify that I have not referred to notes, books, additional calculators, communication devices, or received information from other individuals during the exam.

Signature ___________________________ Date _____________
1. Paying cash to a vendor for an account payable would:

a) Decrease total assets and decrease owners’ equity
b) Decrease total assets and increase owner’s equity
c) Decrease total assets and decrease liabilities
d) Decrease net income and decrease assets
e) Have no effect on total assets or owners’ equity

2. Rivard Company records $50,000 in the unearned revenue account during its first year of operations. The ending balance of unearned revenue is determined to be $22,500. The adjusting entry involves a:

a) Debit to service revenue for $22,500
b) Debit to unearned revenue for $22,500
c) Credit to service revenue for $22,500
d) Credit to unearned revenue for $27,500
e) Credit to unearned revenue for $27,500

3. In Year 2, Greenleaf Company records the payment of $400 cash for an expense accrued in Year 1 and records the accrual of $225 for another expense. The impact of these two entries on Year 2 total expenses and liabilities is:

<table>
<thead>
<tr>
<th></th>
<th>Total Expenses</th>
<th>Liabilities</th>
</tr>
</thead>
<tbody>
<tr>
<td>a)</td>
<td>Increase by $625</td>
<td>Decrease by $225</td>
</tr>
<tr>
<td>b)</td>
<td>Increase by $625</td>
<td>Decrease by $625</td>
</tr>
<tr>
<td>c)</td>
<td>Increase by $225</td>
<td>Decrease by $625</td>
</tr>
<tr>
<td>d)</td>
<td>Increase by $225</td>
<td>Decrease by $175</td>
</tr>
<tr>
<td>e)</td>
<td>Decrease by $175</td>
<td>Decrease by $175</td>
</tr>
</tbody>
</table>

4. Prepaid insurance shows a beginning balance of $900 and an ending balance of $600. During the year, prepaid insurance was debited for $2,500. What is the amount of insurance expense shown on the current year’s income statement?

a) $3,400  
b) $2,200  
c) $2,800  
d) $1,600  
e) $1,900
5. A machine is purchased on 1/1/16 for $15,000. Estimated life is 6 years and the estimated salvage value is $3,000. Straight-line depreciation is used. What will be the Depreciation Expense listed on the Income Statement for the year ended 12/31/18 and the Book Value on the 12/31/18 Balance Sheet?

<table>
<thead>
<tr>
<th>Depreciation Expense</th>
<th>Book Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>a) $2,000</td>
<td>$3,000</td>
</tr>
<tr>
<td>b) $2,000</td>
<td>$6,000</td>
</tr>
<tr>
<td>c) $6,000</td>
<td>$6,000</td>
</tr>
<tr>
<td>d) $6,000</td>
<td>$7,500</td>
</tr>
<tr>
<td>e) $2,000</td>
<td>$7,500</td>
</tr>
</tbody>
</table>

6. Using the LIFO method, the latest purchases of inventory are assumed to be contained:

a) On the balance sheet as part of ending inventory
b) On the income statement as part of cost of goods sold
c) Equally split between the income statement and the balance sheet
d) On the income statement as part of sales revenue
e) Allocated between inventory and cost of goods sold based on the gross margin percentage

7. Two separate errors affected ABC’s 2017 financial statements. The beginning inventory was overstated by $12,000 and the ending inventory was overstated by $6,000. Net income in 2018 will be:

a) Overstated by $18,000
b) Understated by $18,000
c) Overstated by $12,000
d) Overstated by $6,000
e) Understated by $6,000

8. When a corporation declares a cash dividend:

a) Total liabilities increase
b) Stockholders’ equity increases
c) Total assets decrease
d) Total stockholders’ equity remains unchanged
e) Net income decreases
9. Failure to record the adjustment to recognize revenue initially recorded as unearned revenue:

a) Understates liabilities
b) Understates revenue
c) Overstates expenses
d) Understates assets
e) Overstates equity

10. Which of the following correctly identifies normal balances of accounts?

<table>
<thead>
<tr>
<th></th>
<th>Assets</th>
<th>Liabilities</th>
<th>Stockholders’</th>
</tr>
</thead>
<tbody>
<tr>
<td>a)</td>
<td>Debit</td>
<td>Credit</td>
<td>Debit</td>
</tr>
<tr>
<td>b)</td>
<td>Debit</td>
<td>Credit</td>
<td>Credit</td>
</tr>
<tr>
<td>c)</td>
<td>Credit</td>
<td>Debit</td>
<td>Credit</td>
</tr>
<tr>
<td>d)</td>
<td>Debit</td>
<td>Credit</td>
<td>Debit</td>
</tr>
<tr>
<td>e)</td>
<td>Credit</td>
<td>Debit</td>
<td>Debit</td>
</tr>
</tbody>
</table>

11. Given the following data, what is Gross Profit?

Sales Revenue $850,000
Beginning inventory 200,000
Ending inventory 120,000
Purchases 700,000
Freight-out 20,000

a) $150,000
b) $70,000
c) $210,000
d) $620,000
e) $230,000

12. A trial balance prepared after the closing entries have been posted would exclude which one of the following accounts?

a) Cash
b) Accounts Payable
c) Depreciation Expense
d) Unearned Revenue
e) Common Stock
13. On July 1, 2011, Waterloo Company paid the premium in advance of $2,400 for a one-year fire insurance policy on an administrative building. At that time, the full amount paid was recorded as prepaid insurance. On December 31, 2011, the end of the accounting year, the required adjusting entry was not made. Which of the following is true?

a) Gross Profit is overstated  
b) Liabilities are overstated  
c) Net Income is overstated  
d) Cost of Goods Sold is overstated  
e) Working Capital is understated

14. At January 1, 2008, Vernor, Inc. reported $886 in liabilities. For the year ended December 31, 2008, Vernor reported revenues of $980, expenses of $924, and dividends of $46. During the year, the firm issued $80 in common stock. There were no other items affecting equity. Assets at December 31, 2008 were $2,174 and liabilities decreased during the year by $24. What were assets at January 1, 2008?

a) $2,240  
b) $2,060  
c) $2,108  
d) $2,084  
e) $2,150

15. A firm failed to make an adjusting entry on December 31, 2018, to accrue an expense incurred in 2018 that will be paid in January 2019. What was the effect of this error on the December 31, 2018 financial statements?

a) An understatement of liabilities and expenses, and an overstatement of stockholders’ equity  
b) An overstatement of liabilities and assets and an understatement of expenses  
c) An understatement of assets and an underestimation of stockholders’ equity  
d) An overstatement of liabilities and an understatement of retained earnings

16. In periods of inflation, use of FIFO (as opposed to LIFO) would cause:

a) Net Income to be lower  
b) Purchases to be higher  
c) Cost of Goods sold to be the same as LIFO  
d) Inventory to be higher  
e) Sales Revenue to be higher
17. A horizontal analysis of the balance sheet shows that Inventory decreased 28% from the prior year amount. The ending balance in inventory was $285,760. What was the beginning balance in Inventory?

a) $651,533  
b) $396,889  
c) $223,250  
d) $125,300  
e) None of the above

18. Which of these accounts would be shown in the Liabilities section of the balance sheet?

<table>
<thead>
<tr>
<th>Preferred Stock</th>
<th>Accrued Expenses</th>
<th>Treasury Stock</th>
</tr>
</thead>
<tbody>
<tr>
<td>a) Yes</td>
<td>No</td>
<td>Yes</td>
</tr>
<tr>
<td>b) No</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td>c) No</td>
<td>Yes</td>
<td>No</td>
</tr>
<tr>
<td>d) No</td>
<td>No</td>
<td>No</td>
</tr>
<tr>
<td>e) Yes</td>
<td>No</td>
<td>No</td>
</tr>
</tbody>
</table>

19. Which accounts would be increased with debits?

<table>
<thead>
<tr>
<th>Purchase Discount</th>
<th>Common Stock</th>
<th>Bad Debt Expense</th>
</tr>
</thead>
<tbody>
<tr>
<td>a) Yes</td>
<td>Yes</td>
<td>No</td>
</tr>
<tr>
<td>b) No</td>
<td>Yes</td>
<td>No</td>
</tr>
<tr>
<td>c) No</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td>d) No</td>
<td>No</td>
<td>Yes</td>
</tr>
<tr>
<td>e) Yes</td>
<td>No</td>
<td>No</td>
</tr>
</tbody>
</table>

20. Under the allowance method, the write off of an uncollectible Accounts Receivable results in:

a) A decrease in the allowance  
b) An increase in net accounts receivable  
c) An increase in cash  
d) A decrease in bad debt expense  
e) A decrease in Net Income
Accounting Evaluation Practice Exam Answer Key

1. c
2. d
3. d
4. c
5. b
6. b
7. e
8. a
9. b
10. b
11. b
12. c
13. c
14. c
15. a
16. d
17. b
18. c
19. d
20. a