

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.

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

**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>

If you have any questions, please contact Deborah Mourray, Accounting Academic Advisor at:

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Score: _____ Pass/Fail
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Routing	Name	Date
Advisor		
Testing Center		
D Barrantes		
D Mourray		

Name \_\_\_\_\_ Start Time \_\_\_\_\_  
Date \_\_\_\_\_ End Time \_\_\_\_\_

**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 \_\_\_\_\_

Walsh College  
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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 service 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:

	<u>Total Expenses</u>	<u>Liabilities</u>
a)	Increase by \$625	Decrease by \$225
b)	Increase by \$625	Decrease by \$625
c)	Increase by \$225	Decrease by \$625
d)	Increase by \$225	Decrease by \$175
e)	Decrease by \$175	Decrease by \$175
  
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?

	<u>Depreciation</u> <u>Expense</u>	<u>Book</u> <u>Value</u>
a)	\$2,000	\$3,000
b)	\$2,000	\$6,000
c)	\$6,000	\$6,000
d)	\$6,000	\$7,500
e)	\$2,000	\$7,500

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?

	<u>Assets</u>	<u>Liabilities</u>	Stockholders' <u>Equity</u>	<u>Revenues</u>	<u>Expenses</u>
a)	Debit	Credit	Debit	Debit	Credit
b)	Debit	Credit	Credit	Credit	Debit
c)	Credit	Debit	Credit	Credit	Debit
d)	Debit	Credit	Credit	Debit	Credit
e)	Credit	Debit	Debit	Debit	Credit

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 understatement 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?

	<u>Preferred Stock</u>	<u>Accrued Expenses</u>	<u>Treasury Stock</u>
a)	Yes	No	Yes
b)	No	Yes	Yes
c)	No	Yes	No
d)	No	No	No
e)	Yes	No	No

19. Which accounts would be increased with debits?

	<u>Purchase Discount</u>	<u>Common Stock</u>	<u>Bad Debt Expense</u>
a)	Yes	Yes	No
b)	No	Yes	No
c)	No	Yes	Yes
d)	No	No	Yes
e)	Yes	No	No

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