

**NAU ACCOUNTING SKILLS ASSESSMENT  
PRACTICE EXAM & KEY**

1. A company received cash and issued common stock. What was the effect on the accounting equation?

	<u>Assets</u>		<u>Liabilities</u>	<u>Stockholders' Equity</u>
A.	+		NE	+
B.	-		NE	-
C.	+		+	NE
D.	-		-	NE

2. A company purchased land by issuing a note payable. What was the effect on the accounting equation?

	<u>Assets</u>	<u>Liabilities</u>	<u>Stockholders' Equity</u>
A.	-	-	NE
B.	+	+	NE
C.	+	NE	+
D.	-	NE	-

3. Which of the following financial statements is concerned with the financial position of an enterprise at a point in time?

- A. Retained Earnings Statement.
- B. Balance Sheet.
- C. Income Statement.
- D. Statement of Cash Flows.

4. Cash was collected from a customer on account. Which accounts were debited and credited?

	<u>Debit</u>	<u>Credit</u>
A.	Accounts Receivable	Cash
B.	Cash	Service Revenue
C.	Cash	Accounts Receivable
D.	Cash	Accounts Payable

5. Which pair of accounts is increased by recording a credit?

- A. Common Stock and Rent Expense.
- B. Cash and Accounts Receivable.
- C. Treasury Stock and Common Stock.
- D. Notes Payable and Service Revenue.

6. Which of the following errors will cause a trial balance to be out of balance?

- A. A debit to Office Equipment is incorrectly debited to Office Supplies.
- B. The bookkeeper forgot to journalize a transaction.
- C. The bookkeeper forgot to post a journal entry to the ledger.
- D. A credit was posted to an account as a debit.

7. When a magazine company receives advance payment for a subscription, it
- Debits Cash and credits Subscriptions Revenue.
  - Debits Cash and credits Unearned Subscriptions Revenue.
  - Debits Unearned Subscriptions Revenue and credits Cash.
  - Debits Prepaid Subscriptions and credits Cash.
8. The Supplies account had a \$360 debit balance at the end of the accounting period before adjustment for supplies used, and an inventory of \$80 worth of unused supplies were on hand. Which of the following is the required adjusting entry?
- Debit Supplies \$280 and credit Supplies Expense \$280.
  - Debit Supplies Expense \$280 and credit Supplies \$280.
  - Debit Supplies \$80 and credit Supplies Expense \$80.
  - Debit Supplies Expense \$80 and credit Supplies \$80.
9. A company's weekly payroll of \$750 is paid on Fridays. There are five days in a pay period. Assume that the last day of the month falls on Wednesday. Which of the following is the required adjusting entry?
- Debit Unpaid Salaries and credit Salaries Payable for \$450.
  - Debit Salaries Expense and credit Salaries Payable for \$450.
  - Debit Salaries Expense and credit Salaries Payable for \$300.
  - Debit Salaries Payable and credit Salaries Expense for \$450.
10. A company had the following balance sheet accounts and balances:

Accounts Payable	\$ 24,000	Cash	\$12,000
Accounts Receivable	4,000	Common Stock	?
Buildings & Equipment (net)	68,000	Retained Earnings	8,000

What is the balance of the Common Stock account?

- \$76,000
  - \$68,000
  - \$60,000
  - \$52,000
11. An accountant is preparing **adjusting journal entries**. Which of the following entries could **not** possibly be a correct adjusting journal entry?
- |              |       |              |       |
|--------------|-------|--------------|-------|
| Rent Expense | 5,000 |              |       |
|              |       | Rent Payable | 5,000 |
  - |                     |       |                 |       |
|---------------------|-------|-----------------|-------|
| Accounts Receivable | 5,000 |                 |       |
|                     |       | Service Revenue | 5,000 |
  - |                  |       |                  |       |
|------------------|-------|------------------|-------|
| Interest Expense | 5,000 |                  |       |
|                  |       | Interest Revenue | 5,000 |
  - |                  |       |                 |       |
|------------------|-------|-----------------|-------|
| Unearned Revenue | 5,000 |                 |       |
|                  |       | Service Revenue | 5,000 |
12. A company declared cash dividends of \$0.20 per share. If there are 500,000 shares of common stock authorized, 100,000 shares issued, and 80,000 shares outstanding at the date of declaration, what is the amount that the company should record for the dividend?
- \$4,000
  - \$16,000
  - \$20,000
  - \$100,000

13. What is the amount of *Income from Operations* that a company should report on its current year multiple-step income statement based on the following data?

Cost of goods sold	\$ 250,000	Net sales	\$ 600,000
Income taxes expense	50,000	Selling, general &	
Interest expense	25,000	administrative expenses	150,000

- A. \$350,000  
B. \$200,000  
C. \$175,000  
D. \$125,000
14. A company sold equipment for \$100,000; the equipment had cost \$300,000 and had accumulated depreciation of \$180,000. The company's journal entry to record the sale of the equipment would include a
- A. Credit to Sale of Equipment for \$100,000.  
B. Credit to Equipment for \$120,000.  
C. Debit to Equipment for \$300,000.  
D. Debit to Loss on Sale of Equipment for \$20,000.
15. Which of the following should be classified as a current asset?
- A. Accounts Receivable.  
B. Accumulated Depreciation.  
C. Franchises.  
D. Land Held for Future Use.
16. Which of the following is **most likely** to appear on the balance sheet as a current liability?
- A. Bonds Payable.  
B. Accumulated Depreciation.  
C. Long-term Notes Payable.  
D. Wages Payable.
17. Gross profit equals the difference between net sales and
- A. Net Income.  
B. Operating Expenses.  
C. Cost of Goods Sold plus Operating Expenses.  
D. Cost of Goods Sold.
18. Under the **perpetual** inventory system, in addition to making the entry to record a sale, a company would
- A. Make no additional entry until the end of the period.  
B. Debit Cost of Goods Sold and credit Inventory.  
C. Debit Cost of Goods Sold and credit Purchases.  
D. Debit Inventory and credit Cost of Goods Sold.

19. The Allowance for Doubtful Accounts is necessary because
- Uncollected accounts that are written off must be accumulated in a separate account.
  - When recording Bad Debts Expense, it is not possible to predict specifically which accounts will not be collected.
  - Management should know how much in credit losses have occurred over the years.
  - A liability results when a credit sale is made.
20. The general ledger account for Accounts Receivable shows a debit balance of \$50,000. The Allowance for Doubtful Accounts has a **credit** balance of \$1,000. If management estimates that 5% of Accounts Receivable will prove uncollectible, Bad Debts Expense would be recorded for
- \$1,500.
  - \$2,540.
  - \$2,500.
  - \$3,500.
21. Interest on a 3-month, 10 percent, \$10,000 note receivable is
- \$ 250.
  - \$2,500.
  - \$ 288.
  - \$1,000.
22. The inventory costing method that matches recent costs with recent revenues is
- Last-in, First-out (LIFO).
  - First-in, First-out (FIFO).
  - Average Cost.
  - Specific Identification.

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**Use the following information to answer the next three questions.**

Beginning inventory	100 units @ \$8.00 =	\$ 800
Purchase # 1	200 units @ \$6.00 =	1,200
Purchase # 2	100 units @ \$12.00 =	<u>1,200</u>
Total	<u>400 units</u>	<u>\$3,200</u>

Ending inventory is 150 units.

23. What is **ending inventory** under the **average cost method**?
- \$1,200.
  - \$2,000.
  - \$ 300.
  - \$ 500.
24. What is **cost of goods** sold under **LIFO**?
- \$1,100.
  - \$1,700.
  - \$1,500.
  - \$2,100.
25. What is **cost of goods sold** under **FIFO**?
- \$1,500.
  - \$1,100.
  - \$1,700.
  - \$2,100.

Use the following information to answer the next three questions.

Nicholson purchased a piece of equipment on for \$60,000. The equipment has an estimated useful life of eight years or 50,000 units of production and an estimated salvage value of \$6,000.

26. The amount of depreciation to be recorded for **year 2** using the **straight-line** method of calculating depreciation, is
- A. \$ 7,500.
  - B. \$ 6,750.
  - C. \$15,000.
  - D. \$13,500.
27. The amount of depreciation to be recorded for **year 1** using the **double-declining balance** method, is
- A. \$13,500.
  - B. \$ 6,000.
  - C. \$15,000.
  - D. \$12,000.
28. The amount of depreciation to be recorded in **year 1** using the **units-of-activity** method and assuming that 6,500 units are produced, is
- A. \$4,680.
  - B. \$7,800.
  - C. \$5,200.
  - D. \$7,020.
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29. Jones borrowed \$960 from the bank, issuing a 12.5%, 4-month promissory note. Assuming that the note is issued and paid in the same accounting period, Jones' entry on the date of payment will include a
- A. Debit to Notes Payable for \$960.
  - B. Debit to Interest Payable for \$40.
  - C. Credit to Cash for \$960.
  - D. Debit to Interest Receivable for \$40.
30. On June, 30, 2011, Riddle Corporation issued \$500,000 of 8%, 5-year bonds at 100. Interest is payable semi-annually. The journal entry to record the semiannual interest **payment** on December 31, 2011 would credit
- A. Interest Expense for \$20,000.
  - B. Cash for \$20,000.
  - C. Cash for \$200,000.
  - D. Bonds Payable for \$500,000.
31. Discount on bonds payable should be reported on the balance sheet of the issuing corporation as a(n)
- A. Direct deduction from the face amount of the bonds payable in the long-term liability section.
  - B. Direct deduction from retained earnings in the stockholders' equity section.
  - C. Asset.
  - D. Direct addition to the face amount of the bonds payable in the long-term liability section.

32. Bonds with a face value of \$10,000 were issued at 97. The Cash account will be debited for
- A. \$970.
  - B. \$10,097.
  - C. \$10,000.
  - D. \$9,700.

33. The following accounts appear in the ledger of Sapphire Corporation on December 31, 2011:

Preferred Stock	\$30,000
Common Stock	60,000
Paid-in Capital in Excess of Par Value, Preferred	7,000
Paid-in Capital in Excess of Par Value, Common	18,000
Retained Earnings	40,000
Treasury Stock	5,000

A balance sheet prepared on December 31, 2011, would report total **paid-in capital** of

- A. \$115,000.
  - B. \$ 90,000.
  - C. \$155,000.
  - D. \$160,000.
34. If Sapphire Corporation has 80,000 shares of common stock authorized, 50,000 shares of common stock issued, and holds 4,000 shares of common stock as treasury stock, the total number of outstanding common shares is
- A. 34,000.
  - B. 76,000.
  - C. 46,000.
  - D. 30,000.
35. The Paid-in Capital in Excess of Par Value account normally is credited in a journal entry to record the issuance of stock when
- A. The earnings per share of the stock exceeds par value.
  - B. The number of shares issued exceeds the par value.
  - C. Stock is sold at an amount greater than par value.
  - D. The stated value of the capital stock is greater than the par value.
36. What effect will the purchase of treasury stock have on **total stockholders' equity**?
- A. Increase.
  - B. Decrease.
  - C. No effect.
  - D. Cannot determine from the information given.
37. Martinez Corporation has 30,000 shares of \$10 par value common stock outstanding. On March 17, the Board of Directors declared a 10 percent stock dividend. Market value of the stock was \$13 on March 17. The effect of the declaration and issuance of the stock dividend for Martinez would include a
- A. Decrease to Cash for \$39,000.
  - B. Decrease to Retained Earnings for \$39,000.
  - C. Decrease to Retained Earnings for \$30,000.
  - D. Increase to Common Stock for \$39,000.

38. The primary purpose of the statement of cash flows is to provide information
- A. Regarding the results of operations for a period of time.
  - B. Regarding a company's financial position at the end of an accounting period.
  - C. About a company's cash receipts and cash payments during an accounting period.
  - D. About a company's investing and financing activities.

39. The following data are available for Allen Clapp Corporation:

Net income	\$200,000
Depreciation expense	40,000
Dividends paid	60,000
Gain on sale of land	10,000
Decrease in accounts receivable	20,000
Decrease in accounts payable	30,000

How much is cash provided by operating activities using the indirect method for the statement of cash flows?

- A. \$240,000
  - B. \$280,000
  - C. \$160,000
  - D. \$220,000
40. The following are data concerning cash received or paid from various transactions for Orange Peels Corporation:

Sale of land	\$100,000
Sale of equipment	50,000
Issuance of common stock	70,000
Purchase of equipment	30,000
Payment of cash dividends	60,000

How much is net cash provided by investing activities in the statement of cash flows?

- A. \$190,000
  - B. \$120,000
  - C. \$130,000
  - D. \$150,000
41. Ibram Corporation had 200,000 shares of \$1 par value common stock outstanding. If Ibram announces a 4-for-1 stock split, the par value and number of shares outstanding after the stock split would be:
- A. \$.25 par; 800,000 shares.
  - B. \$.25 par; 200,000 shares.
  - C. \$1 par; 50,000 shares.
  - D. \$1 par; 800,000 shares.

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**Use the following information to answer the next 4 questions. Formulas for ratio calculations are on the last page of this exam.**

Hasbro, Inc. is a “worldwide leader in children’s and family leisure time products and services” with a wide range of toys and games, entertainment offerings, and licensed products. The following information was provided in Hasbro’s most recent consolidated financial statements (amounts in thousands):

For the Year Ended Dec. 26	2010	
Net revenues	\$ 4,002,161	
Cost of sales	1,712,126	
Operating profit	587,859	
Net earnings	397,752	
At Dec. 26 and Dec. 27	2010	2009
Accounts receivable, less allowance for doubtful accounts	\$ 961,252	\$ 1,038,802
Current assets	2,221,049	2,045,032
Total assets	4,093,226	3,896,892
Current liabilities	718,801	815,888
Total liabilities	2,477,806	2,302,120
Total shareholders’ equity	1,615,420	1,594,772

42. What is Hasbro’s profit margin ratio for 2010?
- A. 0.1%
  - B. 9.9%
  - C. 14.7%
  - D. 57.2%
43. What is Hasbro’s current ratio for 2010?
- A. \$1,502,248
  - B. 0.3 : 1
  - C. 1.7 : 1
  - D. 3.1 : 1
44. What is Hasbro’s debt-to-total assets ratio for 2010?
- A. 60.5%
  - B. 43.0%
  - C. 39.5%
  - D. 32.4%
45. What is Hasbro’s 2010 return on assets?
- A. 14.36 %
  - B. 9.96 %
  - C. 9.72 %
  - D. 0.10 %
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The following questions test basic math reasoning skills that are used in accounting.

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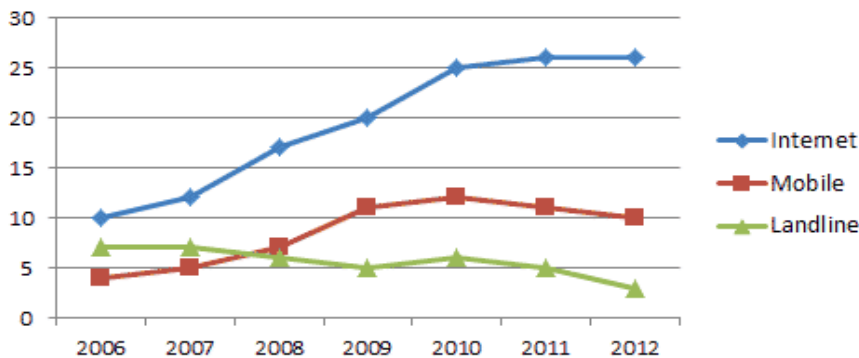
Use the following information to answer the next three questions.

Periods	Future Value of \$1 at 12 Percent	Future Value of Ordinary Annuity of \$1 at 12 Percent	Present Value of \$1 at 12 Percent	Present Value of Ordinary of \$1 at 12 Percent
1	1.120	1.000	0.893	0.893
2	1.254	2.120	0.797	1.690
3	1.405	3.374	0.712	2.402

46. A single deposit of \$800 made at the beginning period 1 would grow to how much at the end of three years, assuming a 12 percent interest rate?
- A. \$1,254.
  - B. \$ 896.
  - C. \$1,124.
  - D. \$2,699.
47. If an accumulation of \$500 is desired at the end of three years, what amount must be deposited now to accomplish that goal, assuming a 12 percent interest rate?
- A. \$148.
  - B. \$356.
  - C. \$446.
  - D. \$268.
48. A deposit of \$200 made at the end of each year for three years would grow to how much, assuming a 12 percent rate?
- A. \$843.
  - B. \$841.
  - C. \$675.
  - D. \$672.
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49. A company has budgeted \$328,000 to be used by both the marketing department and the finance department. The marketing department uses cash at the rate of \$42,000 per month, which is three times the rate of the finance department. How many months until the budgeted amount is used up? Round all amounts to the nearest tenth.
- A. 7.8 months
  - B. 5.9 months
  - C. 2.6 months
  - D. 6.2 months
50. At the end of a year, a company's net income increased 30%. At the end of the second year, the income decreased 25% from the previous year. What was the percentage change for the two years?
- A. (2.5%) decrease
  - B. 2.5% increase
  - C. (5.0%) decrease
  - D. 5.0% increase

51. You just paid \$35,640 for a car, including sales tax. The sales tax rate is 8%. What is the pre-tax price of the car?
- A. \$35,640  
 B. \$32,789  
 C. \$33,000  
 D. \$35,355
52. The Ames and Johnson partnership allocates profits and losses 80% to Ames and 20% to Johnson. Smith enters the partnership and receives a 25% share of profits and losses. What share of profits and losses does Ames now share?
- A. 80%  
 B. 70%  
 C. 55%  
 D. 60%
53. At the beginning of last year your departmental budget was 40% of the total budget. This year it was 30% of the total budget. What percent did your budget decrease from last year?
- A. 25%  
 B. 10%  
 C. 12%  
 D. 33%
54. Johnson Company purchased merchandise with an invoice cost of \$90,000. The vendor's terms offered a 4% discount on any part of the invoice paid within 10 days. Johnson Company made a cash payment of \$48,000 within the 10 days. How much did Johnson Company still owe after making the payment?
- A. \$42,000  
 B. \$40,000  
 C. \$43,920  
 D. \$40,080
55. In which year was Matrix Connections' highest overall revenue based on these three products?

Matrix Connections Ltd Annual Revenue (Million £)



- A. 2010  
 B. 2011  
 C. 2012  
 D. Cannot be determined

## Solutions to Practice Exam

### Multiple Choice

1.	A	2.	B	3.	B	4.	C	5.	D	6.	D	7.	B	8.	B	9.	B	10.	D
11.	C	12.	B	13.	B	14.	D	15.	A	16.	D	17.	D	18.	B	19.	B	20.	A
21.	A	22.	A	23.	A	24.	D	25.	C	26.	B	27.	C	28.	D	29.	A	30.	B
31.	A	32.	D	33.	A	34.	C	35.	C	36.	B	37.	B	38.	C	39.	D	40.	B
41.	A	42.	B	43.	D	44.	A	45.	C	46.	C	47.	B	48.	C	49.	B	50.	A
51.	C	52.	D	53.	A	54.	B	55.	A										

Need more practice or review. Check out the suggestions on the Professional Program in Accountancy webpage

([http://franke.nau.edu/oas/current\\_students/professional\\_program\\_in\\_accountancy](http://franke.nau.edu/oas/current_students/professional_program_in_accountancy))

The screenshot shows the website for the Professional Program in Accountancy at The W. A. Franke College of Business. The main content area lists several options for accounting students:

1. The 4-year Bachelor of Science in Accountancy
2. Continuation in to the MBA-Accounting program\*
3. Continuation as a post-baccalaureate student to earn the 150 hours required for the CPA exam.

\* The MBA-Accounting is a competitive program and not all students are guaranteed a place in the class.

Links provided include: [Progressing through the Accounting Program: Benchmark Assessment](#) (highlighted with a blue arrow) and [Preparing for the Accounting Skills Assessment](#).

The 'GETTING READY' section includes a 'Practice Exam here' link.