Accounting Principles Practice Test
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1. The separate entity assumption permits businesses to record property and equipment as assets that will provide benefits in future periods.
   A) True
   B) False

2. The matching principle is being applied when the cost of equipment is depreciated over its useful life.
   A) True
   B) False

3. In its conceptual framework, the FASB concluded that financial reporting rules should concentrate on providing information that is helpful to
   A) Current and potential investors and creditors in making investment and credit decisions.
   B) Company management and owners.
   C) Tax Authorities.
   D) Regulating Agencies.

4. Keeping the personal assets of the owner of a business separate from the assets of the firm is an example of
   A) following the going concern assumption.
   B) applying the realization principle.
   C) following the separate entity assumption.
   D) applying the conservatism convention.

5. Depreciating equipment over its useful life is an example of
   A) following the objectivity assumption.
   B) applying the matching principle.
   C) applying the realization principle.
   D) applying the conservatism convention.

6. The experience of other firms in the same line of business may be used in estimating losses from uncollectible accounts for a new firm.
   A) True
   B) False
7. When there is a partial collection of a balance previously written off, the reinstatement entry will be for the entire amount of the write-off.
   A) True
   B) False

8. The method that must be used to record bad debt losses for tax purposes is the
   A) allowance method based on a percent of net credit sales.
   B) allowance method based on an aging of accounts receivable.
   C) allowance method based on a percent of total accounts receivable outstanding.
   D) direct charge-off method.

9. A firm reported net credit sales of $450,000 during the year and has a balance of $40,000 in its Accounts Receivable account at year-end. Prior to adjustments, Allowance for Doubtful Accounts has a debit balance of $200. The firm estimates its losses from uncollectible accounts to be one-half of 1 percent of net credit sales. The entry to record the estimated losses from uncollectible accounts will include a credit to Allowance for Doubtful Accounts for
   A) $4,500.
   B) $2,450.
   C) $2,250.
   D) $1,800.

10. When the allowance method of recognizing losses from uncollectible accounts is used, the entry to record the write-off of a specific account consists of a debit to
    A) Uncollectible Accounts Expense and a credit to Accounts Receivable.
    B) Allowance for Doubtful Accounts and a credit to Accounts Receivable.
    C) Uncollectible Accounts Expense and a credit to Allowance for Doubtful Accounts.
    D) Accounts Receivable and a credit to Allowance for Doubtful Accounts.

11. If the proceeds of a discounted note are less than the face amount, the difference is debited to Interest Expense.
    A) True
    B) False

12. If the amount of a note is not collected at maturity, the accountant should debit Uncollectible Accounts Expense and credit Notes Receivable.
    A) True
    B) False
13. The amount of cash paid at maturity date on a $9,000 face value, 60-day note bearing interest at 6% is
   A) $9,720
   B) $9,090
   C) $9,000
   D) $7,200

14. When a company issues a promissory note, the accountant records an entry that includes a credit to Note Payable for the
   A) face value of the note.
   B) face value of the note plus the interest that will accrue.
   C) face value less the interest that will accrue.
   D) maturity value of the note.

15. The Interest Income account
   A) usually has a credit balance.
   B) is usually shown in the Current Assets section of the balance sheet.
   C) is debited when the firm records the effects of a dishonored note receivable.
   D) is credited when the firm accepts a note receivable from a customer.

16. Under the gross profit method of estimating inventory, the ending inventory is determined by subtracting the estimated cost of goods sold from the cost of goods available for sale.
   A) True
   B) False

17. Many retail stores take a periodic inventory at retail values, using the sales price marked on the merchandise.
   A) True
   B) False

18. The weighted average cost of an inventory item is calculated by
   A) dividing the sum of the unit cost on the purchase invoices by the number of units purchased.
   B) dividing the cost of goods available for sale by the number of units on the ending inventory.
   C) dividing the cost of goods available for sale by the number of units available during the period.
   D) dividing the cost of goods sold by the number of units available during the period.
19. Which of the following is NOT a way to apply the lower of cost or market rule?
A) by item
B) by size
C) in total
D) by group

20. An increase above the initial retail price of merchandise is
A) net profit.
B) gross profit.
C) markup.
D) markon.

21. For financial accounting purposes, when an asset is traded in for a similar asset, a gain is reported if the trade-in allowance exceeds the book value of the asset traded in.
A) True
B) False

22. The modified accelerated cost recovery system (MACRS) is acceptable for financial accounting purposes because it matches the costs of assets with the revenues produced by those assets.
A) True
B) False

23. The book value of an asset is
A) the market value of the asset.
B) the portion of the asset's cost that has not yet been charged to expense.
C) the acquisition cost shown in the asset account less the estimated salvage value.
D) the replacement cost of the asset.

24. Equipment that cost $20,000 was sold for $12,000 cash. Accumulated depreciation on the asset was $14,000. The entry to record the sale includes a credit to the Equipment account for
A) $6,000.
B) $12,000
C) $20,000.
D) $14,000.
25. Which of the following is NOT a class under MACRS for personal property?
A) 5 year class  
B) 7 year class  
C) 10 year class  
D) 27.5 year class

26. On March 10, 2013, the Westwood Company accepted a 60-day, 9 percent note from Pete Houghton in settlement of his past-due account for $6,000. On April 9, Westwood Company discounted the note at the First National Bank. The bank charged a discount rate of 12 percent. What is the maturity date of the note?
A) April 9, 2013  
B) April 10, 2013  
C) May 9, 2013  
D) May 10, 2013

27. On March 10, 2013, the Westwood Company accepted a 60-day, 9 percent note from Pete Houghton in settlement of his past-due account for $6,000. On April 9, Westwood Company discounted the note at the First National Bank. The bank charged a discount rate of 12 percent. What is the maturity value of the note?
A) $6,090  
B) $6,900  
C) $6,029  
D) $6,000

28. On March 10, 2013, the Westwood Company accepted a 60-day, 9 percent note from Pete Houghton in settlement of his past-due account for $6,000. On April 9, Westwood Company discounted the note at the First National Bank. The bank charged a discount rate of 12 percent. How many days are in the discount period?
A) 60 days  
B) 9 days  
C) 21 days  
D) 30 days
29. On March 10, 2013, the Westwood Company accepted a 60-day, 9 percent note from Pete Houghton in settlement of his past-due account for $6,000. On April 9, Westwood Company discounted the note at the First National Bank. The bank charged a discount rate of 12 percent. What is the amount of the discount?

A) $60.07  
B) $69.07  
C) $90.60  
D) $60.90

30. On March 10, 2013, the Westwood Company accepted a 60-day, 9 percent note from Pete Houghton in settlement of his past-due account for $6,000. On April 9, Westwood Company discounted the note at the First National Bank. The bank charged a discount rate of 12 percent. What is the amount of the proceeds?

A) $6,030.00  
B) $6,029.10  
C) $6,020.93  
D) $5,999.40
# Accounting Principles Practice Test Answer Sheet

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