

1. What is accounting?

- A) The recording, classifying, and summarizing of financial transactions
- B) The study of economic resources
- C) The preparation of tax returns
- D) The process of budgeting

2. Which account is increased with a debit?

- A) Accounts Payable
- B) Common Stock
- C) Cash
- D) Sales Revenue

3. Which account is decreased with a credit?

- A) Accounts Receivable
- B) Retained Earnings
- C) Inventory
- D) Notes Payable

4. Which of the following is considered an expense?

- A) Rent Expense
- B) Common Stock
- C) Accounts Payable
- D) Cash

5. What is the role of a ledger in accounting?

- A) To summarize all of a company's financial transactions
- B) To detail all debits and credits in individual accounts
- C) To prepare financial statements
- D) To record cash flow activities

6. The cash basis of accounting recognizes:

- A) Revenues when earned and expenses when incurred
- B) Revenues and expenses only when cash is received or paid
- C) Revenues at the point of sale
- D) Expenses at the point of purchase

7. Which of the following is true about the accrual basis of accounting?

- A) It recognizes revenue when cash is received
- B) It does not follow the matching principle
- C) It provides a more accurate picture of a company's financial position
- D) It only records transactions when they are settled

8. Which of the following is an example of a contra asset account?

- A) Accumulated Depreciation
- B) Accounts Payable
- C) Retained Earnings
- D) Common Stock

9. What is the purpose of adjusting entries?

- A) To correct errors in the ledger
- B) To ensure that revenues and expenses are recognized in the correct period
- C) To close the books at the end of the year
- D) To record cash transactions

10. What does equity represent in the accounting equation?

- A) The amount owed to creditors
- B) The owners' claims on the assets of the business
- C) The difference between revenues and expenses
- D) The cash reserves of the business

11. What is a journal entry?

- A) A record of a single transaction in the accounting system
- B) A summary of all transactions for a specific account
- C) A financial statement showing net income
- D) An adjustment made to the ledger

12. An expense is:

- A) A cost incurred in the process of earning revenue
- B) A decrease in equity
- C) Both A and B
- D) A liability

13. What does the term "liquidity" refer to?

- A) The ability of a company to meet its long-term obligations
- B) The ease with which assets can be converted to cash
- C) The profitability of a company
- D) The amount of debt a company has

14. What is the primary difference between a trial balance and a balance sheet?

- A) A trial balance is a preliminary statement, while a balance sheet is a formal financial statement
- B) A balance sheet only includes assets, while a trial balance includes all accounts
- C) A trial balance includes income and expenses, while a balance sheet does not
- D) A balance sheet lists debits and credits, while a trial balance does not

15. Which of the following is a temporary account?

- A) Retained Earnings
- B) Accounts Receivable
- C) Revenue
- D) Equipment

16. What is a "credit" in accounting?

- A) An increase in an asset account
- B) A decrease in an equity account
- C) An increase in a liability or equity account
- D) A decrease in a revenue account

17. What does the term "net income" mean?

- A) The total revenue minus the total expenses
- B) The total assets minus the total liabilities
- C) The total cash received during a period
- D) The amount of cash left after paying dividends

18. What does the term "accrued expense" mean?

- A) An expense that has been incurred but not yet paid
- B) An expense that has been prepaid
- C) An expense that will occur in the future
- D) An expense that has been paid but not yet incurred

19. Which of the following transactions would be recorded in the cash receipts journal?

- A) Payment of wages
- B) Sale of inventory for cash
- C) Purchase of equipment on credit
- D) Payment of dividends

20. What is a chart of accounts?

- A) A financial statement that lists all company accounts and their balances
- B) A detailed listing of all the company's accounts, typically organized by category
- C) A record of all debits and credits in the accounting system
- D) A summary of financial transactions

21. What is the purpose of a post-closing trial balance?

- A) To ensure that all temporary accounts have been closed
- B) To verify that the ledger is in balance after closing entries have been made
- C) To prepare the income statement
- D) To adjust the books for the next period

22. What is a subsidiary ledger?

- A) A ledger containing all the details of one specific account
- B) A summary of all financial transactions
- C) A ledger that contains accounts of a similar nature
- D) A formal financial statement

23. What is the purpose of an audit?

- A) To prepare financial statements
- B) To assess the accuracy and fairness of a company's financial statements
- C) To determine the amount of taxes owed
- D) To verify the company's compliance with internal controls

24. Which of the following is a characteristic of a corporation?

- A) Unlimited liability
- B) Limited life
- C) Ownership can be easily transferred
- D) Owned by a single individual

25. What is a contingent liability?

- A) A liability that may occur depending on the outcome of a future event
- B) A liability that is certain to occur
- C) A liability that has already occurred
- D) A liability that is recorded on the balance sheet

26. What is the purpose of the general journal?

- A) To record all financial transactions not recorded in other journals
- B) To summarize all financial transactions
- C) To record transactions involving cash
- D) To prepare financial statements

27. What does the term "equity financing" refer to?

- A) Borrowing money from creditors
- B) Issuing stock to raise capital
- C) Reinvesting profits into the business
- D) Selling assets

28. What is a "bond"?

- A) A type of equity security
- B) A type of loan issued by a company
- C) A type of intangible asset
- D) A type of revenue

29. What is the difference between gross profit and net income?

- A) Gross profit is total revenue minus the cost of goods sold; net income is gross profit minus operating expenses
- B) Gross profit is total revenue minus operating expenses; net income is gross profit minus the cost of goods sold
- C) Gross profit is total revenue minus taxes; net income is gross profit minus the cost of goods sold
- D) Gross profit and net income are the same

30. Which of the following is a characteristic of accrual accounting?

- A) Revenue is recognized when cash is received
- B) Expenses are recognized when cash is paid
- C) Revenue and expenses are recognized when they are earned and incurred
- D) Revenue is recognized when the invoice is sent

31. What is a "ledger" in accounting?

- A) A book or computer file used to record all financial transactions
- B) A summary of all journal entries
- C) A financial statement
- D) A type of expense account

32. What is a "deferred tax liability"?

- A) A tax that has been paid but not yet incurred
- B) A tax that is due but not yet paid
- C) A future tax payment based on temporary differences between accounting and tax income
- D) A tax that will be deferred indefinitely

33. What does the term "cost principle" refer to?

- A) The principle that assets should be recorded at their original cost
- B) The principle that costs should be recognized when incurred
- C) The principle that costs should be matched with revenues
- D) The principle that costs should be recorded at fair market value

34. What is the purpose of the Statement of Comprehensive Income?

- A) To report changes in equity
- B) To report the company's financial performance, including other comprehensive income
- C) To report cash flows
- D) To report financial position

35. Which of the following best describes a "contingent asset"?

- A) An asset that may arise based on the outcome of a future event
- B) An asset that is certain to be received
- C) An asset that is already owned
- D) An asset that is recorded on the balance sheet

Answer Key

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