1,001 Practice Problems

Accounting

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Features:

- 1,001 accounting practice problems
- Detailed, step-by-step answers and explanations for every problem
- Problems on a wide range of accounting topics, including the bookkeeping cycle, understanding and reporting profit, the elements of accounting, choosing accounting methods, and more

Kenneth Boyd

Owner, St. Louis Test Preparation

Author of *CPA Exam For Dummies*

Kate Mooney

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Published by: **John Wiley & Sons, Inc.,** 111 River Street, Hoboken, NJ 07030-5774, www.wiley.com

Library of Congress Control Number: 2014954678

ISBN 978-1-118-85328-3 (pbk); ISBN 978-1-118-85322-1 (ebk); ISBN 978-1-118-85329-0 (ebk)

Manufactured in the United States of America

10 9 8 7 6 5 4 3 2 1

Contents at a Glance

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Introduction

This book is intended for anyone who needs to brush up on basic accounting concepts. You may use this book as a supplement to material you're learning in an undergraduate accounting course. If you're working as an accountant, this book may help you with concepts that you need to review. The book provides a basic level of accounting knowledge. After you understand these concepts, you can move on to more complex accounting issues.

What You'll Find

The 1,001 accounting questions are grouped into 14 chapters that cover everything from absorption costing to warranty expense. The last chapter of the book contains the answers, with detailed answer explanations. If you miss a question, take a close look at the answer explanation. Understanding where you went wrong will help you learn the concepts.

Beyond the Book

This product comes with a free online Cheat Sheet that helps you increase your accounting knowledge. Check it out at `www.dummies.com/cheatsheet/1001accounting`.

Where to Go for Additional Help

This book covers a great deal of accounting material. Because there are so many topics, you may struggle in some areas. If you get stuck, consider getting some additional help.

In addition to getting help from your friends, teachers, or coworkers, you can find a variety of great materials online. If you have Internet access, a simple search often turns up a treasure trove of information. You can also head to `www.dummies.com` to see the many articles and books that can help you in your studies.

1,001 Accounting Practice Problems For Dummies gives you just that — 1,001 practice questions and answers that increase your understanding and give you an opportunity to apply accounting concepts. If you need more in-depth study and direction for your accounting courses, you may want to try out the following *For Dummies* products (or their companion workbooks), all published by Wiley. There are *For Dummies* books that cover each of the major areas of study in accounting:

- ***Accounting For Dummies,* by John A. Tracy:** This book provides an introduction to the most important accounting concepts. You'll learn about cash versus accrual accounting and how accounting transactions are processed.

- ***Cost Accounting For Dummies,* by Ken Boyd:** This book explains how costs are identified and assigned to products and services. The text also explains how companies price their products and how firms calculate profit.
- ***Financial Accounting For Dummies,* by Maire Loughran:** Use this book to understand how accountants generate financial statements. This book explains how accounting information is presented to investors, lenders, and regulators.
- ***Managerial Accounting For Dummies,* by Mark P. Holtzman:** Try this book if you need to understand how management uses accounting to make decisions. For example, managers need accounting data to decide whether they should manufacture a component part themselves or buy the part from an outside firm. This book explains how accounting is used inside an organization.

Part I

The Questions

1,001 Questions

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In this part . . .

The only way to become proficient in accounting is through a lot of practice. Fortunately, you now have 1,001 practice opportunities right in front of you. These questions cover a variety of accounting concepts and range in difficulty from easy to hard. Master these problems and you'll be well on your way to a solid foundation in accounting concepts.

Here are the types of problems that you can expect to see:

- Elements of accounting (Chapter 1)
- Financial effect of transactions (Chapter 2)
- Bookkeeping cycle and adjusting and closing entries (Chapters 3 and 4)
- Understanding and reporting profit (Chapter 5)
- Reporting financial conditions on the balance sheet (Chapter 6)
- Coupling the income statement and balance sheet (Chapter 7)
- Reporting cash flows (Chapter 8)
- Reporting changes in stockholders' equity (Chapter 9)
- Choosing accounting methods (Chapter 10)
- Profit behavior analysis (Chapter 11)
- Manufacturing cost accounting (Chapter 12)
- Investment analysis and financial statement analysis (Chapters 13 and 14)

Chapter 1

Elements of Accounting

Accounting is a subject that requires you to learn concepts in a specific order. That's because concept B builds upon what you learned about concept A. In fact, an accounting student can get very frustrated trying to learn a concept by jumping ahead and not understanding earlier concepts. This chapter provides some of the critical elements of accounting. You need these concepts before moving on to any other accounting topics.

The Problems You'll Work On

In this chapter, you see a variety of algebra problems:

- Working with transactions that change the accounting equation
- Defining assets, liabilities, equity, revenue, and expenses
- Understanding the differences between cash-basis and accrual-basis accounting
- Compiling the income statement using revenue and expense transactions
- Using the balance sheet and the income statement

What to Watch Out For

Don't let common mistakes trip you up. Some of the following suggestions may be helpful:

- Be careful when using the accounting equation. There are two versions of the formula. One is assets – liabilities = equity. The other is assets = liabilities + equity. Keep in mind which version you're using.
- The profit calculation using accrual accounting is unrelated to a firm's cash position. A firm can have a very profitable month and have a very low cash position.
- To understand the statement of cash flows, identify the investment and financing transactions first. After you identify those transactions, all the other cash flows are related to operations.
- Accounts receivable and accounts payable transactions are only posted when you use accrual accounting. If a company is using the cash basis, you don't use receivables or payables.

Types of Business Entities

1–5

1. Business entities can legally be organized in a variety of ways. What is a common characteristic among all business entity types?

2. What business type is a single-owner business?

3. Entering into a business with another person is an example of what type of business entity?

4. Why is a sole partnership not one of the ways of legally organizing a business?

5. Which business type is most difficult to create initially but, once created, makes it easier to raise funds and provides liability protection for the owners?

The Accounting Equation and Why It Balances

6–30

6. What is the proper format of the basic accounting equation?

7. What are *assets?*

8. What makes a vehicle purchased with a loan an example of an asset?

9. What are *liabilities?*

10. Why is money owed to a bank on a loan considered a liability?

11. What does it mean when a company purchases something *on account?*

12. Why is a loan from a bank not an asset?

13. Why is office equipment an example of an asset?

14. What is the name for resources owned by a company?

15. A business has assets of $135,000 and liabilities of $45,000. Calculate the amount of owners' equity.

16. A business has liabilities of $345,700 and owners' equity of $154,300. Calculate the amount of assets the company has.

17. At the end of an accounting period, a company's total assets equaled $1,450,000, and owners' equity was $654,000. How much were the company's liabilities?

18. At the end of an accounting period, a company's total assets equaled $576,000, and liabilities equaled $245,000. How much was the company's owners' equity?

19. At the end of an accounting period, a company's owners' equity equaled $2,376,000, and its liabilities equaled $142,000. How much were the company's assets?

20. What does it mean when a business has *negative retained earnings?*

21. What is the effect on the accounting equation if a company buys a truck with a cash down payment of $5,000 and borrows the remaining $25,000?

22. What is the effect on the accounting equation when a company pays cash for purchases of inventory?

23. What is the effect on the accounting equation when a company obtains a loan to purchase a delivery truck?

24. A company owes a supplier $37,000 for inventory purchased a week ago. What is the effect on the accounting equation if the company makes a $20,000 payment?

25. What is the effect on the accounting equation when owners contribute a delivery truck to a company?

26. What is the effect on the accounting equation when a company earns revenue by selling a product and collects the amount of the sale in cash?

27. What is the impact on the accounting equation when a company uses its cash to pay for office expenses such as rent and utilities?

28. What does it mean when a business is *highly leveraged?*

29. The owners of a start-up invest $1,000,000 into the business. After one year of operations, the business has assets of $850,000 and losses of $300,000. What are the total liabilities at the end of the first year?

30. The owners of a start-up invest $50,000 into the business. After one year of operations, the business has assets of $350,000 and liabilities of $200,000. How much profit or loss did the business generate during the first year?

Cash-basis Accounting versus Accrual-basis Accounting

31–52

31. What is the main characteristic of cash-basis accounting?

32. What is the main characteristic of accrual-basis accounting?

33. What is the primary difference between cash-basis and accrual-basis accounting?

34. Cash-basis accounting is most frequently used by which group?

35. Accrual-basis accounting is most frequently used by which group?

36. Why is cash-basis accounting *not* used by large businesses?

37. When are transactions recorded under accrual-basis accounting?

38. Al LaMode Ice Cream Company produces high-quality ice cream that is distributed to shops in resort areas. On July 1, the company purchased the raw materials to make the ice cream. On July 15, the process was complete, and the product was stored in the freezer ready to ship to customers. On July 31, Ken and Mary's Ice Cream Shop ordered 200 pounds of ice cream. On August 1, Al LaMode delivered the ice cream to Ken and Mary's Ice Cream Shop. Ken and Mary paid Al LaMode on August 10. Ken and Mary sold all the ice cream between August 5 and August 12. If it uses accrual-basis accounting, when will Al LaMode record the revenue from the sale to Ken and Mary?

39. Al LaMode Ice Cream Company produces high quality ice cream that is distributed to shops in resort areas. On July 1, the company purchased the raw materials to make the ice cream. On July 15, the process was complete, and the product was stored in the freezer ready to ship to customers. On July 31, Ken and Mary's Ice Cream Shop ordered 200 pounds of ice cream. On August 1, Al LaMode delivered the ice cream to Ken and Mary's Ice Cream Shop. Ken and Mary paid Al LaMode on August 10. Ken and Mary sold all the ice cream between August 5 and August 12. If it uses cash-basis accounting, when will Al LaMode record the revenue from the sale to Ken and Mary?

40. Little Falls Bandages sells medical supplies to college football teams. The teams pay a flat fee of $10,000 on August 1 for as many bandages as they need during the football season, September through November. If they use cash-basis accounting, how much revenue does Little Falls record in September?

41. Furd Buggy Company uses electricity in its retail shop during the month of May. On June 15, the company receives the bill for the May electricity usage for $759. Furd pays the bill on July 1. If Furd Buggy Company uses accrual-basis accounting, on which month's income statement will the expense appear, and how much will it be?

42. Credit Cab Corporation buys fuel from a fuel bank, paying $1,000,000 on January 1 for 250,000 gallons of fuel. The company uses the last of the 250,000 gallons on July 1. The January income statement shows a fuel expense of $1,000,000. What basis of accounting does Credit Cab use?

***43–49** Use the following information to answer the questions. The following is selected information regarding Ace, Inc. for the fiscal year 2015:*

- Cash receipts from sales made in 2015: $750,000
- Cash payments for purchases of inventory in 2015: $325,000
- The company did not have a beginning inventory balance in 2015.
- Cash payments for other expenses: $375,000
- Year-end receivables balance from customers for sales made during the year 2015: $155,000
- Cost of products in ending inventory that have not been sold: $120,000
- Liability for unpaid expenses that were incurred in 2015: $450,000

43. Calculate the amount of cash-basis revenues for Ace, Inc. for 2015.

44. Calculate the amount of cash-basis expenses for Ace, Inc. for 2015.

45. Calculate the amount of cash-basis profit or loss for Ace, Inc. for 2015.

46. Calculate the amount of accrual-basis revenues for Ace, Inc. for 2015.

47. Calculate the accrual-basis cost of goods sold for Ace, Inc. for 2015.

48. Calculate, using the accrual basis, other expenses for Ace, Inc. for 2015.

49. Calculate the accrual-basis profit or loss for Ace, Inc. for 2015.

***50–52** Use the following information to answer the questions. XYZ, Inc. had the following transactions during 2015:*

- Sales on account: $5,000
- Cash sales: $6,000
- Amount collected as customer deposits in 2016: $3,000
- Amount paid for utilities expenses incurred in 2015: $2,000
- Amount paid in advance for services to be used in 2016: $1,000

50. Calculate the amount of cash-basis revenues for XYZ, Inc. for 2015.

51. Calculate the amount of cash-basis expenses for XYZ, Inc. for 2015.

52. Calculate the amount of difference between accrual-basis revenues and cash-basis revenues for XYZ, Inc. for 2015.

Profit Activities and the Income Statement

53–72

53. What is the name of the financial statement that summarizes a company's revenues, other income, expenses, and losses?

54. What is another name for an income statement?

55. What is the financial statement that shows the business profit or loss during a period?

56. The financial statement you are looking at lists revenues and gains, along with some other items. What financial statement are you viewing?

57. Other than revenues and expenses, what other items may be found on an income statement?

58. A banker asks a borrower for information on the company's revenue growth over the last few years. What financial statement will the borrower provide the banker?

59. What information is presented on an income statement?

60. Which of the following items appear on an income statement?

A. deferred revenue

B. current liabilities

C. loss on the sale of equipment

D. cash received from customers

E. dividends paid to stockholders

61. Identify the expenses that must be listed separately on the income statement to comply with accounting rules.

62–64 *Use the following information to answer the questions. Hummus Records has the following current-year information in its accounting records:*

- Sales revenue: $47,000
- Interest revenue: $1,200
- Selling expenses: $14,000
- General expenses: $3,000
- Cost of goods sold: $20,000
- Tax expense: $2,200

62. Calculate the gross profit for Hummus Records.

63. Calculate the operating income for Hummus Records.

64. Calculate the income before taxes for Hummus Records.

65–68 *Use the following information to answer the questions. The following data is available for Koala Kuddles for 2015:*

- Sales revenue: $15,000,000
- Cost of goods sold: $12,400,000
- Interest expense: $125,000
- Selling, general, and administrative expense: $1,450,000
- Loss on the sale of equipment: $275,000
- Income tax expense: $200,000
- Cost of new equipment: $800,000

65. What is the amount of gross profit on Koala Kuddles' 2015 income statement?

66. What is the amount of operating earnings on Koala Kuddles' 2015 income statement?

67. What is the amount of earnings or loss before income taxes on Koala Kuddles' 2015 income statement?

68. What is the amount of net income or loss on Koala Kuddles' 2015 income statement?

69–72 *Use the following information to answer the questions. The following data is available for Petal Bikes for 2015:*

- Sales revenue: $8,000,000
- Gross margin: $2,000,000
- Operating earnings: $650,000
- Earnings before income tax: $420,000
- Net income: $180,000
- Petal Bikes had no gains or losses and no interest revenue in 2015.

69. What is the amount of income tax expense on Petal Bikes' 2015 income statement?

70. What is the amount of the cost of goods sold on Petal Bikes' 2015 income statement?

71. What is the amount of selling, general, and administrative expenses on Petal Bikes' income statement?

72. What is the amount of interest expense on Petal Bikes' 2015 income statement?

Financial Condition and the Balance Sheet

73–78

73. What are the three primary financial statements?

74. What is the balance sheet sometimes called?

75. GameTime Caterers has presented its banker with a financial statement that displays the cash balance on hand, the amount owed to its suppliers, common stock, and retained earnings as of December 31, 2015. What statement did the company give to the banker?

76–78 *Use the following information to answer the questions. The following data is available for Car Bop, Inc. for 2015:*

- Amounts owed by customers: $75,000
- Cost of unsold product: $90,000
- Cash balance: $110,000
- Amounts owed for unpaid purchases and expenses: $72,000
- Notes payable to bank: $73,000
- Unearned revenues: $10,000
- Cash sales for 2015: $227,000
- Credit sales for 2015: $133,000
- Cost of goods sold for 2015: $175,000

76. What are the total assets on Car Bop's balance sheet?

77. What are the total liabilities on Car Bop's balance sheet?

78. What is the total equity on Car Bop's balance sheet?

Cash Flows and the Statement of Cash Flows

79–90

79. A banker is considering a loan to finance a vehicle for a small company but wants to make sure that the company will have enough cash to make the payments over the next three years. What statement should she look at?

80. The statement of cash flows includes a section called which of the following?

A. cash outflows

B. cash inflows

C. summary of cash

D. operating activities

E. spending activities

81. During the year, Organic Bricks Co. paid cash for a new delivery truck. Where on the statement of cash flows would that event appear?

82. During the year, Organic Bricks made the last payment on the mortgage on its building. How should the company classify this on the statement of cash flows?

83. Organic Bricks sold an old truck that originally cost $76,000. The book value of the truck was $26,000, and the company received $30,000 in cash from the buyer as full payment. How should the company reflect this transaction in the cash flows from investing activities?

84. Determine the amount of change in cash during the year based on the following:

- Cash flow from operating activities: ($50,000)
- Cash flow from investing activities: $20,000
- Cash flow from financing activities: $50,000
- Significant non-cash transactions include purchase of a building with a $250,000 note.

85. Determine the cash flow from investing activities during the year based on the following:

- Cash flow from operating activities: $50,000
- Cash flow from financing activities: $25,000
- Net increase/(decrease) in cash during the year: ($40,000)

86. Determine the cash flow from financing activities during the year based on the following:

- Cash flow from operating activities: $6,000
- Cash flow from investing activities: ($5,000)
- Net increase/(decrease) in cash during the year: $13,000

87. Determine the cash flow from operating activities during the year based on the following:

- Cash flow from investing activities: $45,000
- Cash flow from financing activities: ($55,000)
- Cash at the beginning of the year: $270,000
- Cash at the end of the year: $370,000

88–90 *Use the following information to answer the questions. The following data is available for Lawn Paint Yard Service:*

- Proceeds received from issuance of stock: $20,000
- New equipment purchases: $130,000
- Amount of a new note payable: $65,000
- Proceeds from sale of old equipment with a book value of $40,000: $45,000
- Dividends paid: $40,000
- Dividends declared but unpaid: $10,000
- Cash flow from operating activities: $45,000

88. Calculate the cash flow from investing activities for Lawn Paint Yard Service.

89. Calculate the cash flow from financing activities for Lawn Paint Yard Service.

90. If Lawn Paint Yard Service started the year with a cash balance of $6,300, what was the balance of cash on hand at the end of the year?

Chapter 2

Financial Effects of Transactions

This chapter explains the three basic financial statements. You'll go over the information found in each type of statement. The chapter also points out the financial impact of many accounting transactions. As an accountant, you need to understand how accounting activity affects each financial statement.

The Problems You'll Work On

In this chapter, you see questions on these topics:

- Going over the three basic financial statements
- Finding out about prepaid assets and unearned revenue
- Understanding cash versus credit sales and customer deposits
- Reviewing how inventory costs are moved to cost of sales
- Working with depreciation expense

What to Watch Out For

Don't let common mistakes trip you up. Some of the following suggestions may be helpful:

- Be careful when posting customer payments. Some customer payments are deposits. A customer deposit means that you haven't delivered a product or service yet. You post customer deposits to a liability account.
- Some expenses are paid in advance. Insurance premiums, for example, are paid before the period of insurance coverage. You post these premium payments to prepaid assets. The payments are considered an asset because you don't have to pay cash later to cover the expense.
- Inventory is an asset account. When you sell inventory, you move those costs from an asset account to cost of sales expense.
- Depreciation expense is a non-cash item. Rather than crediting cash, you credit accumulated depreciation.

Classifying Business Transactions

91–99

91. What are the primary financial statements?

92. What is the name of the financial statement that summarizes a business's assets, liabilities, and owners' equity at the end of an accounting period?

93. What is the name of the financial statement that summarizes the profit-making transactions during a period of time?

94. What is the name of the financial statement that summarizes a business's cash transactions during a period of time?

95. The primary activity of a business is focused on which of the following?

A. generating assets

B. generating a profit

C. creating jobs

D. communities

E. executive compensation

96. Which of the following transactions relates to generating cost of goods sold?

A. obtaining a loan from a bank

B. selling services to customers

C. purchasing a new machine for the factory

D. hiring a new employee

E. purchasing inventory

97. Which of the following is an example of a profit-making transaction?

A. obtaining a loan from a bank

B. selling services to customers

C. purchasing a new machine for the factory

D. hiring a new employee

E. purchasing inventory

98. Which of the following is an example of an investing activity?

A. obtaining a loan from a bank

B. selling services to customers

C. purchasing a new machine for the factory

D. hiring a new employee

E. purchasing inventory