QuickBooks Bookkeeping Certification Exam - Practice Test

Before you begin:

- Simply memorizing these sample questions and answers will NOT prepare you for the test. The test questions will be different. To prepare for the test, you should understand the workflows and concepts covered by these questions.
- Questions are grouped by "Objective Domain" (area of Intuit Bookkeeper Professional Standards) and the number of questions in each domain is proportional to the number of questions in each domain on the test.

Good Luck!

Accounting Basics

1. For each of the statements fill in the blanks with **Cash Basis** or **Accrual Basis.**

   a. When recording expenses, reporting on ________________________ shows the expense at the time of the payment, and ________________________ shows the expense at the time it occurs.

   b. When recording revenue, reporting on ________________________ shows at the time the revenue is earned, and ________________________ shows the revenue at the time the payment is received.

Correct answers are a: cash basis, accrual basis and b: accrual basis, cash basis.

2. For each statement select **YES** or **NO** to indicate whether the equation is true.

YES	NO	Assets + Income = Equity
YES	NO	Income - Cost of Goods Sold - Expenses = Net Income
YES	NO	Assets = Liabilities + Equity
YES	NO	Income - Liabilities - Expenses = Net Income

Correct answers are NO, YES, YES, and NO. The accounting equation is Asset = Liabilities + Equity. For the Profit & Loss Statement, it is also true that Income – Cost of Goods Sold – Expenses = Net Income.

3. For each statement select **TRUE** or **FALSE**, to indicate if it is a valid reason for making adjusting journal entries.

TRUE	FALSE	To record depreciation of fixed assets.
TRUE	FALSE	To record payments received from customers.
TRUE	FALSE	To record the payroll liabilities for unpaid wages at the end of the year.
TRUE	FALSE	To record debit card transactions.
TRUE	FALSE	To enter Accounts Payable transactions.
TRUE	FALSE	To record the amortization of prepaid insurance.

Correct answers are TRUE, FALSE, TRUE, FALSE, FALSE, and TRUE. Adjusting journal entries allow you to account for unrealized income and expenses for the period.

4. Choose all of the account types that have a normal debit a.
   a. Liability
   b. Asset
   c. Expense
   d. Revenue
   e. Equity

Correct answers are B and C. Liabilities, Equity, and Income carry a normal credit balance.

5. You are the bookkeeper for an ad agency. You receive a purchase order from a customer in November for an ad design. Your company completes the work on December 28th. On December 31st you prepare an invoice and email the invoice to the customer on January 1st. On February 4th you receive a check that's dated January 29th. If you are on the accrual basis of accounting, in which month do you recognize the revenue?
   a. November
   b. December
   c. January
   d. February

Correct answer is B. The Revenue Recognition Principle means that you should record the income when you provide the service, in December.

6. Which of the following are good reasons to use a double-entry accounting software? (Choose all that apply).
    a. It will prevent anyone from embezzling from your company.
    b. As a bookkeeper, it will prevent you from entering incorrect amounts.
    c. It will only save transactions if the debit and credit amounts are equal.
    d. It will ensure that the equations (Assets = Liabilities + Equity, as well as, Income – COGS - Expense = Net Income) for your financial statements are never out of balance.

Correct answers are C and D. Accounting software comes with some security measures but can't prevent fraud. It may also have some measures to help with avoiding errors, but it can't know everything, so you may sometimes have data entry errors.

7. Which of the following are important tools for payroll accounting? (Choose all that apply).
    a. Payroll Register
    b. Payroll Accounting Sheet
    c. Employee Earnings Record
    d. W-4 Form

Correct answers are A, C, and D. The Payroll Register is where you record payroll transactions. The Employee Earnings Record lists each employee's wages, withholdings, and other costs associated with their payroll. The W-4 Form is how employees inform an employer of the correct Federal tax withholdings for their paychecks.

8. For each statement indicate if it is part of the adjusting process by choosing **TRUE** or **FALSE**.

TRUE FALSE Reconciling the income statement at the end of the period for proper revenue recognition.

TRUE FALSE Pay off credit card payable balances to reduce liability balances.

TRUE FALSE Review all accounts and enter journal entries at the end of the accounting period to ensure accurate balances.

TRUE FALSE Deleting uncleared transactions from the bank accounts in order to report accurate balances.

Correct answers are FALSE, FALSE, TRUE, and FALSE. The adjusting process is simply verifying information and recording adjusting entries as necessary at the end of an accounting period.

9. Indicate whether the following are ethical responsibilities of a bookkeeper by marking **TRUE** or **FALSE**.

TRUE FALSE Keeping all financial information and data for the client confidential.

TRUE FALSE Always ensuring that transactions are recorded the way they happen in the real world.

TRUE FALSE Entering unverified expenses into the client books to increase income.

TRUE FALSE Notify clients of any situations that are illegal or inappropriate.

Correct answers are TRUE, TRUE, FALSE, and TRUE. You should always inform clients of best bookkeeping practices and keep their transactions confidential and accurate.

10. Which of the following is the remaining amount of a paycheck after deductions are withheld for any federal and state taxes, benefit deductions, and other miscellaneous deductions?

    a. Adjusted gross income
    b. Salary payable
    c. Net pay
    d. Gross pay

Correct answer is C. Net pay is what the employee takes home after deductions.

11. You have been hired as a bookkeeper for a small business. The owner gives you a deposit slip showing a $40,000 check written from his personal account that was deposited into the business checking account. Which accounts would be used to record the transaction?

    a. Debit Banking and credit Owner’s Contribution/Owner’s Investment.
    b. Debit Banking and credit Revenue.
    c. Debit Owner's Contribution/Owner’s Investment and credit Banking.
    d. Debit Revenue and credit Banking.

Correct answer is A. The Owner’s Contribution account is an equity account used for when the owner invests money in the company or pays for business expenses with personal funds.

12. You are the bookkeeper for a small retail shop. The owners took out a large loan to help cover expenses and they are struggling to keep the business afloat. The owner decides to liquidate a significant portion of inventory to cover their loan and reduce their retail offerings in the future. A friend asks you if you know why they don’t offer a favorite product anymore. How should you respond to your friend's question?

    a. The business didn’t do anything wrong, so you can share the details of the decision..
    b. It is a close friend so it is okay to share the details.
    c. You should not share information about the business with anyone.
    d. Your non-disclosure agreement doesn’t mention anything about inventory offerings, so you can share this decision.

Correct answer is C. It is important for business’ to be able to trust that their bookkeepers will not share important details about their business.

13. You are a bookkeeper for a local lawn care business. The business has invested $16,000 for two new riding mowers so they can increase the number of clients. They paid $4,000 with a check written from the business account, $2,000 with a check from the owner, and have a loan for the remaining amount. You need to record the transactions for the purchase. For each statement about the transactions select **TRUE** or **FALSE**.

TRUE	FALSE	The business should record a liability for $10,000.
TRUE	FALSE	The business should record an asset for $10,000.
TRUE	FALSE	The business should record an asset for $16,000.
TRUE	FALSE	The business should reduce cash by $6,000.
TRUE	FALSE	The business should record an owner contribution of $2,000.

Correct answers are TRUE, FALSE, TRUE, FALSE, and TRUE. The business should only reduce cash by $4,000 because that's what came from the company's bank account. The remaining $2,000 down is from the owner and should be an Owner's Contribution transaction. The assets total $16,000, and they only took out a $10,000 loan for the equipment.

14. Match the types of accounts (LIABILITIES, ASSETS, EQUITY, REVENUES, and EXPENSES) to the proper statement below.

LIABILITIES	Selling inventory to your customer increases the _____.
ASSETS	Purchasing materials on account increases the ______.
REVENUES	Writing a check for services provided to your business increases the ________.
EQUITY	Inventory items are classified as _________.
EXPENSES	Investments the owner makes in the business increase the ________.

Correct answers are REVENUES, LIABILITIES, EXPENSES, ASSETS, and EQUITY. Sales to customers increase Revenue (Income) accounts. Purchasing materials on account should increase your Accounts Payable (Liabilities). Writing a check for services is a debit (increase) to an expense account. Inventory items are Current Assets. When the owner invests money into the company, you record a credit to Equity.

15. Put the steps of the accounting cycle in order.

2	Record and account for transactions
3	Review data and make necessary adjusting entries
1	Review transaction source documents
4	Prepare the financial statements

Correct answers are *Review transaction source documents*-1, *Record and account for transactions*-2, *Review data and make necessary adjusting entries*-3, and *Prepare the financial statements*-4. See course manual for steps of the accounting cycle.

16. For each statement regarding the general ledger select **TRUE** or **FALSE**.

TRUE	FALSE	The General Ledger shows ending balances for accounts.
TRUE	FALSE	The General Ledger shows all accounts that are debited or credited for a single invoice.
TRUE	FALSE	The General Ledger lists all the accounts for a business.
TRUE	FALSE	The General Ledger shows each of the debits and credits recorded for each one of the accounts over a certain date range.

Correct answers are TRUE, FALSE, TRUE, and TRUE. A transaction journal or journal entry will show all the accounts involved in a single transaction.

17. You are the bookkeeper for a small business that uses the cash basis of accounting. You record the following transactions:

    1. The business sold $24,000 in services and received $18,500 in payments for those services.
    2. The owner invested $10,000 in the business.
    3. They wrote a check for rent in the amount of $4,300.
    4. The business received a bill for $7,000 for some repairs to their equipment.

    Select all the actions below that are necessary to record these transactions.

    a. You should record revenue of $24,000.
    b. You should record an expense of $7,000 for equipment repairs.
    c. You should record revenue of $18,500.
    d. You should record revenue of $10,000 with a debit to cash.
    e. You should record an expense of $4,300 with a credit to cash.
    f. You should record a credit to the Owner's Contribution for $10,000.

Correct answers are C, E, and F. Because the business is on the CASH basis, they will only record revenues of $18,500 since that's what they received in payment. They haven't paid the $7,000 bill for repairs yet, so that won't affect their expenses until they do. Owner's investments should affect equity, not income (revenue).

18. You are recording transactions for a business that uses the accrual basis of accounting. Here are some of the first transactions you need to record:

1. The company received a bill for utilities for $250.
2. The company invoices a customer for $15,000.
3. The company received $6,000 from payments on customer invoices.
4. The company pays a $700 bill that was recorded last month for materials.

For each statement about the transactions in the current month, select TRUE or FALSE.

TRUE	FALSE	Record a credit to Accounts Payable for $700 for materials.
TRUE	FALSE	Record an increase to income of $6,000.
TRUE	FALSE	Record a $250 debit to a utilities expense account.
TRUE	FALSE	Increase Accounts Receivable by $6,000.
TRUE	FALSE	Debit an income account for $15,000.
TRUE	FALSE	Debit an expense account for $700 for materials.

Correct answers are FALSE, FALSE, TRUE, FALSE, FALSE, and FALSE. They need to decrease Accounts Payable with a debit, not a credit, and it should not affect the expense account. When they receive payment for the invoices, that should not affect the revenue account, only decrease Accounts Receivable.

19. You are recording transactions for a business that has just sold 5,000 shares of common stock to an investor for $25,000. The stock has a par value of $1 per share. For each statement below choose whether you would **DEBIT** or **CREDIT** or **DO NOT RECORD.**

DEBIT	CREDIT	DO NOT RECORD	Cash $25,000
DEBIT	CREDIT	DO NOT RECORD	Common Stock $25,000
DEBIT	CREDIT	DO NOT RECORD	Additional Paid-in Capital $20,000
DEBIT	CREDIT	DO NOT RECORD	Common Stock $5,000
DEBIT	CREDIT	DO NOT RECORD	Additional Paid-in Capital $25,000

Correct answers are DEBIT, DO NOT RECORD, CREDIT, CREDIT, and DO NOT RECORD. When you sell shares of common stock, you should increase your cash account by the investment amount with a debit. You should also show the value of the common stock at $1 per share ($5,000) as the value of the Common Stock (Equity) account with a credit. For the additional amount the investor pays, you record a credit of $20,000 to an Additional Paid-in Capital (Equity) account.

20. You are recording transactions for a business that sells screwdrivers tracked as inventory.

    1. They purchased 1000 screwdrivers in March for $5,000.
    2. In March, they sold 300 of the screwdrivers for $3,000 to a customer on account.
    3. In April, the customer sends a check to pay their $3,000 balance.
    4. In April, the company purchased 300 screwdrivers for $2,000.

    Choose the correct statement(s) below regarding the transactions in March.

    a. Debit Cash for $5,000.
    b. Debit Accounts Receivable for $3,000.
    c. Debit Cash for $3,000.
    d. Debit Cost of Goods Sold for $1,500.
    e. Debit Gross Sales for $3,000.

Correct answers are B and D. Cash is an asset account, so debits will increase the balance and credits will decrease. When you sell or buy on account, you should affect Accounts Receivable or Accounts Payable (respectively). The total cost they paid for the screwdrivers they sold was $1500, so you need to increase the Cost of Good Sold account. Gross Sales in an income account, so to increase it, you should record a credit.

<u>Accounting for Assets and Sales Transactions</u>

21. Your client has a customer that has a balance that they are not going to pay. You need to write off the amount as a bad debt. Which account should you debit?
    a. Accounts Receivable
    b. Refunds
    c. Allowance for Bad Debt
    d. Sales Revenue

Correct answer is C. When using the allowance method for writing off bad debt you would debit Allowance for Bad Debt and credit the Accounts Receivable account.

22. Your customer made a partial payment of $4000 on an open invoice for $7500. You need to record the payment. Which of the following is correct? You should...
    a. Credit Accounts Receivable for $4000 to reduce the customer's balance.
    b. Credit Sales Revenue for $7500 to increase sales.
    c. Debit Accounts Receivable for $3500 to increase the customer's balance.
    d. Credit Accounts Receivable for $7500 to reduce the customer's balance.

Correct answer is A. Payments against a balance in Accounts Receivable don't affect income accounts. A partial payment should only reduce the balance of Accounts Receivable by the amount paid.

23. You need to record depreciation for an asset. You want to spread the depreciation expense evenly over the useful life of the asset. What method of depreciation should you use?
    a. Double declining balance
    b. Sum-of-years declination
    c. Straight-line depreciation
    d. Equal units depreciation

Correct answer is C. Straight-line depreciation spreads the expense out over the determined useful life of the asset.

24. You receive a payment from a customer to pay an open invoice. For each statement below choose how it will affect the account balances. Choose from **INCREASE**, **DECREASE** or **NO CHANGE.**

INCREASE	DECREASE	NO CHANGE	Total Assets
INCREASE	DECREASE	NO CHANGE	Total Equity
INCREASE	DECREASE	NO CHANGE	Total Accounts Receivable
INCREASE	DECREASE	NO CHANGE	Total Revenues

Correct answers are NO CHANGE, NO CHANGE, DECREASE, and NO CHANGE. Customer payments will affect only asset accounts, including Accounts Receivable, so the asset balance will remain unchanged.

25. For each statement related to depreciation below, select **TRUE** or **FALSE**.

TRUE FALSE Accumulated depreciation represents the cumulative amount of the depreciation of an asset to a single point in time.

TRUE FALSE You must use the same useful life for all assets being depreciated.

TRUE FALSE Accumulated depreciation is a contra account that reduces the overall value of the asset.

TRUE FALSE Depreciation is the reduction of the value of an asset over the passage of time to show the cost of the asset over its useful life.

TRUE FALSE The historical cost represents the actual cost of the asset at the time of the purchase less the accumulated depreciation.

TRUE FALSE If an asset has no residual value and is still owned at the end of its useful life the remaining value of the asset would be zero.

Correct answers are TRUE, FALSE, TRUE, TRUE, FALSE, and TRUE. See the course manual for the appropriate practices for recording depreciation.

26. You need to record the annual depreciation of a fixed asset using the straight-line method. The asset is equipment that has a useful life of 10 years. The historical (original) cost of the asset is $30,000 and the accumulated depreciation for the asset is currently $6,000. Select the statement(s) that are true.

    a. You should debit Depreciation Expense for $3,000.
    b. You should debit Accumulated Depreciation for $6,000.
    c. You should debit Depreciation Expense for $24,000.
    d. You should credit Accumulated Depreciation for $600.
    e. You should credit Accumulated Depreciation for $3,000.
    f. You should credit the asset for $600.

Correct answers are A and E. If you are using the straight-line method of depreciation, you divide the historical cost over the useful life of the asset. In this case, you should depreciate the asset $3,000 each year. To record the depreciation, you should record a debit to Depreciation Expense, and a credit to Accumulated Depreciation.

27. Fill in the blanks. The Accumulated Depreciation account is shown on the __________ and the Depreciation Expense account is shown on the ________.
    a. Profit & Loss, Profit & Loss
    b. Profit & Loss, Balance Sheet
    c. Balance Sheet, Profit & Loss
    d. Balance Sheet, Balance Sheet

Correct answer is C. The Accumulated Depreciation account is an asset-type of account and shows on the balance sheet. The Depreciation Expense account shows on the Profit & Loss statement.

28. On March 22nd you received a $700 payment from your customer for their open invoice and on March 25th you invoice a customer $1200 for services you provided. Using the T-accounts below determine which statements are correct once you add the transactions.

Cash

	Debit	Credit
Beginning Bal	$48,000	
15-Mar	$750	
Ending Bal		

Account Recievable

	Debit	Credit
Beginning Bal	$23,000	
15-Mar		$750
17-Mar	$570	
Ending Bal		

Sales

	Debit	Credit
Beginning Bal		$15,000
17-Mar		$570
Ending Bal		

    a. Accounts Receivable ending balance is $24,770.
    b. There is a credit of $1200 to Sales on 3/25.
    c. Accounts Receivable ending balance is $23,320.
    d. There is a debit of $750 to cash on 3/25.
    e. Sales ending balance is $16,770.
    f. There is a debit of $1200 to cash on 3/25.

Correct answers are B, C, and E. The ending balance for Accounts Receivable is $23,320. Credits increase asset accounts, so you need to record a $1200 credit to Accounts Receivable when you invoice the customer. When the customer pays you $700, you should record a debit for that amount. You would not debit the Cash account for $1200, because you haven't received payment for the invoice yet.

29. You are the bookkeeper for a company that has just purchased a building for $750,000. They wrote a check for $100,000 for the down payment and have a loan for the remaining purchase amount. For each account type, select **YES** if the transaction changes the account balance or **NO** if it does not.

YES	NO	Assets
YES	NO	Equity
YES	NO	Liabilities
YES	NO	Expenses

Correct answers are YES, NO, YES, and NO. When you record the purchase of a fixed asset with money spent from the business and a loan, you will credit the Cash amount of the down payment and debit the Fixed Asset account for the original cost. These are both asset accounts. You will also credit the liability account for the amount of the loan.

30. You are recording the monthly depreciation entry for a business. Which of the following would be the correct journal entry?
    a. Debit Depreciation Expense and credit the Building Asset account.
    b. Debit Depreciation Expense and credit Accumulated Depreciation.
    c. Debit Accumulated Depreciation and credit the Depreciation Expense.
    d. Debit Depreciation Expense and credit Cash.

Correct answer is B. Debits will increase the expense account and credits will decrease the Accumulated Depreciation account. You should not affect the Building Asset account, so as not to change the original cost, and depreciation does not affect your business' cash account.

31. Choose the correct statement(s) below regarding current and fixed (long-term) assets.
    a. Current assets are paid for in cash, fixed assets are financed.
    b. Current assets are expected to be used within a year, fixed assets will be used for more than a year.
    c. Current assets are depreciated, fixed assets are not depreciated.
    d. Current assets are considered tangible, fixed assets are not considered tangible.

Correct answer is B. Any asset type can be paid for with cash or financed. You typically depreciate Fixed Assets, not current assets. Whether an asset is tangible or not does not determine whether it is a current or fixed asset.

32. To properly account for the purchase of a building on the Balance Sheet you would use which type of account?
    a. Long-term asset
    b. Equity
    c. Current asset
    d. Expense

Correct answer is A. A long-term asset can also be called a Fixed Asset.

33. You are the bookkeeper for a company that uses a perpetual inventory system to manage the merchandise. The company purchases inventory to resell, and you need to record the transaction. The inventory purchase is for $3,500, and the vendor issues a bill with Net 45 terms. Which account would you debit?
    a. Cash
    b. Accounts Payable
    c. Inventory Asset
    d. Inventory Liability

Correct answer is C. Since the vendor issued a bill, you should credit Accounts Payable. There is no specific Inventory Liability account involved in an inventory transaction. Inventory Assets are debited to increase the value of the account. You won't affect your cash account until you pay the bill.

34. For each statement below regarding the sale of inventory to a customer, select **TRUE** or **FALSE**.

TRUE	FALSE	When you record the sale of inventory to a customer on account, you would debit the Inventory Asset account.
TRUE	FALSE	When you record the sale of inventory to a customer on account, you would debit the Accounts Receivable account.
TRUE	FALSE	When recording the sale of inventory you would debit Cost of Goods Sold and credit the revenue account.
TRUE	FALSE	When recording the sale of inventory you would credit the Inventory Asset account.

Correct answers are FALSE, TRUE, TRUE, and TRUE. Debits will increase the value of the Inventory Asset account, you should instead record a credit. Selling items "on account" means you need to increase the customer's Accounts Receivable balance. You increase the Cost of Goods Sold by the cost of the inventory and the Revenue account by the amount of the sale.

Accounting for Liabilities, Equity, and Purchase Transactions

35. You are the bookkeeper for a business that uses cash basis accounting, and you have received a credit card receipt for $300 for the purchase of office supplies on Aug 12th. When you record this transaction, which account should you debit?

    a. Accounts Payable
    b. Office Supplies Expense
    c. Cash
    d. Credit card payable

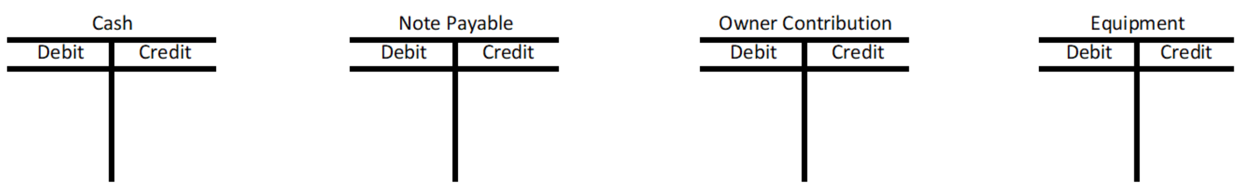
Correct answer is B. Making a purchase with a credit card still counts as paying for the expense on the cash basis, so you should debit the Office Supplies Expense account and credit the Credit Card Payable account.

36. You are the bookkeeper for a business that repairs motorcycles and sells parts. A mechanic purchases a special part for one specific customer's motorcycle. Which account should you debit to record the purchase?

    a. Inventory
    b. Current assets
    c. Cost of goods sold
    d. Office supplies

Correct answer is C. When you purchase an item specifically for use on a customer's job, that you don't normally stock, you can record the purchase directly to the Cost of Goods Sold account.

37. Your business needs to purchase a new delivery truck; however, you do not have the funds available to do so. The owner writes a check from their personal account for $15,000, and the business takes out a loan for the remaining $35,000. Select **TRUE** or **FALSE** for each statement about how you would record the transitions using the T-accounts below.



TRUE	FALSE	Debit Equipment $50,000
TRUE	FALSE	Debit cash $35,000
TRUE	FALSE	Credit Note Payable $35,000
TRUE	FALSE	Credit Owner Contribution $15,000

Correct answers are TRUE, FALSE, TRUE, and TRUE. You should debit the Equipment account because it's an asset, and you need to increase it by the total cost of the truck, $50,000. You should not affect the cash account, because the business did not use funds from the company bank account. You should credit your Note Payable (liability) account for the amount of the loan, $35,000, and credit the Owner's Contribution (equity) account for the amount he paid from his personal account, $15,000.

38. Choose all the statements below that are true regarding liabilities.
    a. When a business purchases an asset, it always creates a corresponding liability.
    b. A liability represents money that the business owes to someone.
    c. You can have current or long-term liabilities on the Balance Sheet.
    d. The owner(s) of a business can claim assets even when there are outstanding liabilities.

Correct answers are B and C. Not all asset purchases are made with loans, some are paid fully in cash. Owner's can only claim assets after all the business' liabilities have been paid.

39. For each of the following statements identify whether it is a **CURRENT LIABILITY** or **LONG-TERM LIABILITY** or **NEITHER**.

CURRENT LIABILITY	LONG-TERM LIABILITY	NEITHER	Amounts that are due within one year.
CURRENT LIABILITY	LONG-TERM LIABILITY	NEITHER	Amounts that are invested by the owner.
CURRENT LIABILITY	LONG-TERM LIABILITY	NEITHER	A mortgage is a _________.
CURRENT LIABILITY	LONG-TERM LIABILITY	NEITHER	Amounts that are due after one year.
CURRENT LIABILITY	LONG-TERM LIABILITY	NEITHER	Cost of goods sold is __________.

Correct answers are CURRENT LIABILITY, NEITHER, LONG-TERM LIABILITY, LONG-TERM LIABILITY, and NEITHER. Amounts invested by the owner are recorded as Equity. Since a mortgage takes longer than a year to pay off, it's considered a long-term liability. Cost of Goods Sold is not a liability and affects the Profit & Loss statement.

40. You are starting a bookkeeping business. To cover the start up costs you put $7000 of your own money in, and you received a loan from a family member for $5000. Which account should you use to enter the $7000?
    a. Equity
    b. Accounts Payable
    c. Notes Payable
    d. Accounts Receivable

Correct answer is A. You should definitely record your personal investment as equity, but any loans you receive from other people who do not own the business should be recorded as a liability in an account like Notes Payable, even if the loan is from someone close to you.

41. For each entry listed below choose between **LIABILITY** and **EQUITY**.

LIABILITY	EQUITY	Dividends
LIABILITY	EQUITY	Note Payable
LIABILITY	EQUITY	Common Stock
LIABILITY	EQUITY	Owner's Contribution

Correct answers are EQUITY, LIABILITY, EQUITY, and EQUITY. A dividends account is used to track payments to investors, as a distribution of the company's profit, so they affect equity. Note Payable is a common name for an account that tracks a loan for the business. Common stock is a way to record shares in the company, and affects equity directly, not through income. The Owner's Contribution account is how you record the owner's direct investments into the company through cash or purchases for the business with personal funds.

42. You are the bookkeeper for a new startup business. There are 3 partners who have each put in $10,000 for the startup costs. How would you record the transaction?
    a. Debit Cash $30,000, credit Partner Distributions $30,000.
    b. Credit Cash $30,000 debit Partner Contributions $30,000.
    c. Debit Cash $30,000, credit each Partner Contributions account $10,000.
    d. Credit Cash $30,000, debit each Partner Distributions account $10,000.

Correct answer is C. When multiple partners invest money into a company, it's best to track each partner's contribution in a separate equity account. Since it's equity invested, you should credit the contributions account for each partner for the amount they contributed.

43. For each statement below regarding payroll, select **TRUE** or **FALSE**.

TRUE	FALSE	The bookkeeper should complete a W-4 form for each employee.
TRUE	FALSE	The W-4 form is supplied by the IRS.
TRUE	FALSE	When calculating the federal withholding amount you start with the gross pay less the pre-tax deductions.
TRUE	FALSE	The W-4 information is used to calculate federal unemployment.

Correct answers are FALSE, FALSE, TRUE, and FALSE. The W-4 form is completed by employee's to tell the company their individual federal withholding. While you can download the W-4 form from the IRS website, it is something that you need to provide to employees to complete. Federal withholding is taken from the employee's gross pay, but excepting any pre-tax deductions for certain types of health insurance or retirement plans. Unemployment amounts are assigned to and paid by the employer, and not related to employee's federal withholding selections on the W-4.

44. The expenses from the Profit & Loss have what effect on equity?

   a. Increase
   b. No change
   c. It remains equal
   d. Decrease

Correct answer is D. While you don't directly record expenses against equity, they do impact equity by decreasing the net profit.

45. What does the term FIFO stand for?
    a. First inventory, first obligation
    b. First in, first out
    c. First in, final out
    d. Fiduciary inventory, final obligation

Correct answer is B. FIFO is an inventory valuation method. Others include LIFO, and Average Cost.

46. You received a bill with Net 30 terms for some advertising work that you had done. What is the proper way to record the transaction?
    a. Credit Accounts Payable, debit Advertising Expense.
    b. Credit Cash, debit Advertising Expense.
    c. Debit Advertising Expense, credit Note Payable.
    d. Debit cash, credit Accounts Payable.

Correct answer is A. Net 30 terms mean you will owe the full amount of the bill 30 days later. Until your company pays the bill, you should increase your Accounts Payable balance with the vendor using a credit, and record the Advertising expense with a debit.

47. On July 10th you paid $2400 for insurance for the year. The insurance policy began on July 1st. Choose the statement(s) below that are true.
    a. When you record the initial transaction you debit Insurance Expense and credit Prepaid Insurance.
    b. At the end of October the amount of the insurance expense recorded would be $1,000.
    c. When you record the initial transaction you debit Prepaid Insurance and credit Cash.
    d. At the end of December the balance of the Prepaid Insurance account is $1,200.

Correct answers are C and D. The initial transaction should not increase your expense account, because you want to spread that expense evenly over the year. Instead, debit the asset account Prepaid Insurance and credit your Cash account. To expense it out each month, you should debit the Insurance Expense account for $200. At the end of October, your Insurance expense would be $800, because the policy started on July 1st. Half way through the policy, in December, you should have $1200 of insurance expenses and $1200 remaining in the Prepaid Insurance account.

48. You are the bookkeeper for a business that buys and sells t-shirts. They use the FIFO method to value inventory. They start tracking a new shirt as an inventory item in the 2nd quarter, and the following transactions occur. June 10th they purchased 100 shirts for $10 a shirt, on July 14th they purchased 30 shirts for $9 a shirt, and on September 8th they purchased 40 shirts for $12 a shirt. On June 30th they sold 80 shirts for $15 a shirt, on July 20th they sold 30 shirts for $20 a shirt, and on September 15th they sold 30 shirts for a total of $750. Using only the information provided, choose the best answer for the questions related to account balances.

    a. What is the inventory value as of July 31st?
        i. $270
        ii. $120
        iii. $180
        iv. $190
    b. What is the Cost of Goods Sold as of September 1st?
        i. $1,090
        ii. $1,270
        iii. $1,426
        iv. $1,390

Correct answers are iii and i. The inventory value for the new item at the end of July is $180 because you started with $1000 of shirts, sold $800 worth in June, then purchased another $270, and sold $290 in July. Assuming only these shirts were sold, the Cost of Goods Sold for September 1st is $1,090 because you sold $800 (80 of the 100 for $10) worth of shirts in June, and $290 (20 of the 100 for $10, and 10 of the 30 for $9) worth in July.

49. You are the bookkeeper for a business that builds and sells rocking chairs. You are reviewing the cash and accrual financial statements with the owner and need to identify some of the amounts.

    1. On January 15th, the business received $7,800 of materials from their vendor, Woodland, and paid them with a check.
    2. On January 28th, they deposit 2 checks. One for a sale to their customer, Chair Emporium for $10,000, and another for $6,000 from another customer for an open invoice from the previous year.
    3. On January 30th, the business purchased $4,000 of supplies from Woodland with the company credit card.
    4. On February 5th, they invoiced Chair Emporium for another $3,000.
    5. On February 12th, they purchased $8,000 for materials on account with their vendor, Good Wood, with Net 60 terms.
    6. On March 10th, they invoiced and received $12,000 for chairs they sold to their customer, Sit and Relax Company.

    Select each of the answer(s) that are true.

    a. The gross revenue at the end of the quarter on a cash basis is $28,000.
    b. The expenses for January are $11,800 on both cash and accrual basis.
    c. The total expenses at the end of the quarter on a cash basis is $19,800.
    d. At the end of the quarter the net income on an accrual basis $5,200 is and the net income on a cash basis is $19,200.

Correct answers are A and B. On the cash basis, you received a $10,000 check, a $6,000 check, and an additional $12,000 payment from customers, for a total of $28,000 of income. Credit card expenses are considered "paid" for the cash basis, so you spent $7,800 on materials and $4,000 on supplies in January. They are still considered expenses on the accrual basis because you received the items in January as well. The total expenses at the end of the quarter on the cash basis is still $11,800 because the $8,000 materials expense won't be paid until the next quarter. The calculation for the net income for accrual and cash basis is shown below:

INCOME	-	EXPENSES	=	NET INCOME

The net income for the quarter on the accrual basis is $5,200.

10,000 + 3,000 + 12,000 (25,000)	-	7,800 + 4,000 + 8,000 (19,800)	=	5,200

The net income for the quarter on the cash basis is $16,200.

10,000 + 6,000 + 12,000 (28,000)	-	7,800 + 4,000 (11,800)	=	16,200

Reconciling and Financial Statements

50. For each type of account listed below indicate which financial statement they can be found on. Choose between **PROFIT & LOSS** and **BALANCE SHEET**.

PROFIT & LOSS	BALANCE SHEET	Dividends
PROFIT & LOSS	BALANCE SHEET	Note Payable
PROFIT & LOSS	BALANCE SHEET	Cost of Goods Sold
PROFIT & LOSS	BALANCE SHEET	Inventory
PROFIT & LOSS	BALANCE SHEET	Revenue
PROFIT & LOSS	BALANCE SHEET	Capital

Correct answers are BALANCE SHEET, BALANCE SHEET, PROFIT & LOSS, BALANCE SHEET, PROFIT & LOSS, and BALANCE SHEET. Dividends and Capital are both Equity accounts that appear on the Balance Sheet. Note Payable is a Liability account and Inventory is an Asset account, so they also appear on the Balance Sheet. The Cost of Goods Sold and Revenue accounts both appear on the Profit & Loss Statement.

51. For each statement regarding the Balance Sheet, select **TRUE** or **FALSE**.

TRUE	FALSE	The Balance Sheet has 4 different sections.
TRUE	FALSE	The equity on the Balance Sheet is equal to the Assets minus the Liabilities.
TRUE	FALSE	The Balance Sheet is used to reconcile the bank balance to the net income.
TRUE	FALSE	The Balance Sheet allows you to see the profitability of the business over a period of time.
TRUE	FALSE	The Balance Sheet shows the financial health of your business at one point in time.

Correct answers are FALSE, TRUE, FALSE, FALSE, and TRUE. The Balance Sheet has 3 sections: Assets, Liabilities, and Equity. The accounting equation is typically expressed as Assets = Liabilities + Equity, but it is a functional math equation. If you move the parts around with algebra (by subtracting liabilities from both sides), the equation can also be stated Assets - Liabilities = Equity. You don't reconcile the bank balance against net income because the net income isn't designed to report your net cash or cash flow. The Balance Sheet does report the financial health of your business as of a specific date, but it's the Profit & Loss statement that shows your profitability over a period of time.

52. What are three reasons that you could have a difference when reconciling the bank account? (Choose 3).
    a. You are trying to reconcile to the wrong ending balance.
    b. Your vendor hasn't cashed a check you already recorded, and it's still uncleared in your reconciliation.
    c. You are missing a transaction that has cleared the bank account.
    d. The amount you recorded the transaction for does not match the amount that shows on the bank statement.
    e. You must record the depreciation entry for the month before you can complete the reconciliation.

Correct answers are A, C, and D. You should always ensure that the beginning and ending balances for the account match the statement exactly. If you have an uncleared check in your books, and not on your statement, it won't cause a difference unless you try to reconcile it. If you have a transaction on your statement that is not in your records, you should record it in order to complete the reconciliation. Each transaction you record in your books should match the amount that clears on the bank statement exactly. Since depreciation is an adjusting entry that doesn't affect Cash, it would not cause a difference when reconciling the bank account.

53. You are reconciling the company credit card for the month of June. There is a difference of $94.26 between the statement ending balance and the book balance. What are the likely causes? (Choose 2).
    a. The credit card statement has a $94.26 error.
    b. You did not record a transaction for $94.26 that is on your credit card statement.
    c. It is likely a journal entry adjustment that was recorded.
    d. You recorded a transaction twice.

Correct answers are B and D. It is not common for the statement to have an error, or for adjusting entries to affect credit card payable accounts, and those are not a very likely cause of a difference. Data entry errors are a very common reason for a difference between the statement and the books. If you are missing a transaction you need to enter it. If you have a duplicate transaction, you should remove one from your records to complete the reconciliation.

54. When reconciling your checking account in your books, which supporting document should you reconcile your books to?
    a. Profit & Loss statement
    b. Income statement
    c. Bank statement
    d. Petty cash receipts

Correct answer is C. Reconciliation is the process of comparing your bank's records to your own, so you need the statement from your bank to compare to your books.

55. You need a report that will show you the trends in income and expenses over multiple years. Which report would you use?
    a. Budget vs. Actual
    b. Balance Sheet Previous Year Comparison
    c. Comparative Sales Revenue Report
    d. Comparative Income statement

Correct answer is D. The Budget Vs. Actual will compare your estimated income & expenses against what your business actually earned/spent. A Balance Sheet Previous Year Comparison would only show balance sheet accounts, so you wouldn't see the details of your income and expenses. A Comparative Sales Revenue Report wouldn't show your expenses. The Comparative Income Statement shows the income & expenses broken down to compare different years.

56. You are reconciling the checking account to your bank statement, and you find that there is a discrepancy in the amount of a particular deposit. The amount recorded does not match the amount that shows on the bank statement. Which source document would you use to determine which amount is correct?
    a. Income statement
    b. Deposit receipts
    c. Bank register
    d. Cash flow statement

Correct answer is B. Your Income Statement, Cash Flow Statement, and Bank Register are all built using the data you entered, so they can't help you determine whether the amount you recorded is correct. Deposit receipts will allow you to determine if you recorded the deposit correctly in your books.

57. You are the bookkeeper for a small business, and you are reconciling their checking account. There are 3 checks that were written during the month, but do not show on this month's bank statement. You should _________ the checks, because _________.

    a. leave/they will likely clear on next month's statement
    b. void/they will never clear the account
    c. record a transaction to show the checks as a current liability/it is understating the balance in the checking account
    d. record an adjustment for/they will cause a difference on the next month's reconciliation.

Correct answer is A. Uncleared checks should be left on the books to reconcile when they clear on a future statement.

58. For each account type, select **YES** or **NO** to indicate if it should be reconciled on a monthly basis.

YES	NO	Petty Cash
YES	NO	Credit Card Payable
YES	NO	Cost of Goods Sold
YES	NO	Sales Revenue
YES	NO	Checking Account

Correct answers are YES, YES, NO, NO, and YES. You reconcile accounts for which you receive a monthly statement, or have outside records against which to verify the accounts. You don’t reconcile Cost of Goods Sold or Income accounts.

59. The owner of the business you do bookkeeping for asks to see a report that shows the net income of the business compared to estimated income and expenses for last quarter. Which report should you run?

    a. Actuals vs. Estimates Income Statement
    b. Budget Overview Income Statement
    c. Budget vs. Actual Income Statement
    d. Profitability vs. Actual Income Statement

Correct answer is C. The Budget Vs. Actual Income Statement will compare anticipated income/expenses against the actual income/expenses.

60. You just wrote a check to pay off the SBA loan for your business. Review the Balance Sheet below, and select the statement(s) that are true regarding the effect the transaction has on the Balance Sheet.

Your Company Year End Balalnce Sheet		
Assets		
Checking		$ 185,150.00
Savings		$ 28,220.00
A/R		$ 160,000.00
Inventory		$ 53,000.00
Fixed Assets		$ 205,000.00
Other Assets		$ 27,510.00
Total Assets		$ 658,880.00
Liabilities		
A/P	$ 45,000.00	
Auto Loan	$ 38,500.00	
SBA Loan	$175,380.00	
Total Liabilities		$ 258,880.00
Equity		
Owners Equity	$115,000.00	
Retained Earnings	$285,000.00	
Total Equity		$ 400,000.00
Total Liabilities and equity		$ 658,880.00

a. The Total Assets and Total Liabilities and Equity will both be $483,500.
b. The Total Assets will increase by $175,380.
c. The Total Equity will decrease by $175,380.
d. There will be no change to the Balance Sheet. The payment will reduce the income statement.
e. The Total Liabilities will decrease to $83,500.00.

Correct answers are A and E. To record paying off the loan, you should credit your Checking account for $175,380.00, and debit the SBA Loan (liability) account for the same amount. This will decrease both the Total Assets and the Total Liabilities and Equity sections to $483,500. Neither Total Equity nor the Profit & Loss Statement will be affected by this transaction.

61. For each statement regarding the reconciliation, select **TRUE** or **FALSE**.

TRUE	FALSE	The book balance is the balance after the reconciliation has been completed.
TRUE	FALSE	NSF fee stands for national source fee, and is a fee the bank charges each month.
TRUE	FALSE	A deposit that is in transit has been recorded but has not yet shown as cleared on the bank statement.
TRUE	FALSE	An outstanding check is a check that has been issued but has not yet shown as cleared on the bank statement.
TRUE	FALSE	If you have a difference at the end of the reconciliation, you should always complete the reconciliation by entering an Adjusting JE using the Reconciliation Discrepancy Expense account.

Correct answers are FALSE, FALSE, TRUE, TRUE, and FALSE. The book balance will include any uncleared checks or deposits in transit. An NSF fee is a Non-Sufficient Funds fee that only occurs when a payment bounces. You should always try to find and correct the source of a discrepancy between your books and the bank statement.

62. For each of the reports below choose the time frame you should use to generate the report. Choose from **SPECIFIC DATE** or **DATE RANGE**.

SPECIFIC DATE	DATE RANGE	Cash flow statement
SPECIFIC DATE	DATE RANGE	Income statement
SPECIFIC DATE	DATE RANGE	Balance Sheet
SPECIFIC DATE	DATE RANGE	Budget vs. actual income statement

Correct answers are DATE RANGE, DATE RANGE, SPECIFIC DATE, and DATE RANGE. On the Balance Sheet is run as of a specific date. The others are for a specified period of time with a beginning and end date.

63. Why would you use a Profit & Loss report that displays a column for each month?
    a. It is the only way to get a total for the 12 month time period.
    b. It allows you to see trends for income and expenses over time.
    c. It shows how the owner's equity in the business changes over time.
    d. It allows you to see trends in the assets and expenses over time.

Correct answer is B. A Comparative Profit & Loss statement displays a column for the income & expenses for each month in a given date range to show you trends over time.

64. At what interval should you reconcile the checking accounts?
    a. Daily
    b. Weekly
    c. Monthly
    d. Annually

Correct answer is C. You should reconcile a checking account as often as you receive the statement, which is usually monthly.

65. Select the types of account(s) that are not usually reconciled.
    a. Expense accounts
    b. Bank Accounts
    c. Income accounts
    d. Liability accounts
    e. Profit & Loss accounts.

Correct answers are A, C, and E. You should reconcile accounts for which you receive a regular statement, or for which you have outside documents to verify the transactions against. That does not include Income, Expense, or Cost of Goods Sold accounts.

66. When reconciling an account, you find that a duplicate check for materials was recorded. The result of a duplicate check recorded would overstate ________ and understate ________.

    a. Cash, Accounts Payable
    b. Cash, Assets
    c. Expenses, Accounts Receivable
    d. Expenses, Cash

Correct answer is D. If you record two checks for the same thing, then you will have increased your expenses twice, and decreased checking twice. So it appears that you spent more than you actually did.

67. You are the bookkeeper for a small business and need to record the receipt of $10,000 in revenue that was not recorded as Accounts Receivable. Review the Balance Sheet below, and select the statement(s) that are true regarding the effect the transaction has on the Balance Sheet.

Your Company Year End Balalnce Sheet		
Assets		
Checking		$ 85,150.00
Savings		$ 28,220.00
A/R		$ 160,000.00
Inventory		$ 53,000.00
Fixed Assets		$ 205,000.00
Other Assets		$ 27,510.00
Total Assets		$ 558,880.00
Liabilities		
A/P	$ 45,000.00	
Auto Loan	$ 38,500.00	
SBA Loan	$175,380.00	
Total Liabilities		$ 258,880.00
Equity		
Owners Equity	$115,000.00	
Retained Earnings	$185,000.00	
Total Equity		$ 300,000.00
Total Liabilities and equity		$ 558,880.00

    a. The Total Assets and Total Liabilities will reduce by $10,000.
    b. The Total Assets will increase to $568,880.
    c. Total Equity will increase to $310,000.
    d. The only change to the Balance Sheet will be to the assets.
    e. Accounts Receivable will decrease by $10,000.
    f. There will be no change in the Total Assets.

Correct answers are B and C. You need to debit your Checking account for $10,000 and credit Income for the same amount. Crediting your income account ultimately increases equity. So you should see an increase in Total Assets and Total Equity. Liabilities will not be affected.

68. What are the benefits of using budget reports? For each benefit listed select **YES** to indicate it is a benefit or **NO** to indicate that it is not a benefit.

YES	NO	Helps to determine if purchasing new equipment will generate greater profit.
YES	NO	Supplies information that can be used to manage the business spending.
YES	NO	To estimate future expenses.
YES	NO	To manage the cash balances of the company.

Correct answers are NO, YES, YES, and NO. Budget reports will compare estimated expenses against actual expenditures, but it won't tell what effect an asset purchase will have on your profit. While it provides useful information to help you project future expenses and income, it doesn't directly help you see the cash flow of the business.

69. You are the bookkeeper for a business, and you are preparing the financial statements for the end of the period. Which steps you should take before preparing the financial statements? (Choose all that apply).

   a. Review the budget reports.
   b. Confirm that the Balance Sheet matches the budget reports.
   c. Record adjusting entries.
   d. Create closing entries.

Correct answers are C and D. Budget reports aren't a necessary part of preparing the main financial statements (Balance Sheet, Profit & Loss, and Statement of Cash Flows). You should however ensure that adjusting entries, such as depreciation or other closing entries, are made.