Principles of Accounting Competency Exam (PACE)
(Sample Exam)

1. The accounting process does not include:

a. interpreting
b. reporting
c. purchasing
d. observing
e. classifying

2. The financial statement or statements that pertain to a stated period of time is (are) the:

a. balance sheet
b. balance sheet and journals
c. balance sheet and income statement
d. income statement
e. none of the above

3. External users of financial accounting information include:

a. lenders
b. prospective owners
c. customers
d. labor unions
e. all of the above

4. Expenses can be found in the:

a. statement of owner's equity
b. income statement
c. balance sheet
d. both b and c
e. all of the above

5. This account does not appear on the income statement:

a. accumulated depreciation
b. depreciation expense
c. sales revenue
d. marketing expense
e. interest expense

6. A brand new company has a building costing $10,000, machinery costing $5,000, cash of $700, and a bank loan of $7,850. What is the owner's equity?

a. $8,850
b, $15,700
c. $7,750
d. cannot be determined
e. $7,850

7. An example of an economic exchange includes:

   a. a business owner purchases inventory on credit
   b. a dry cleaning business cleans 3 dresses for a customer
   c. an insurance agent sells a whole life policy
   d. a contractor purchases a new truck for cash
   e. all of the above

8. If a company has owner's equity of $100,000,

   a. assets minus liabilities equal $100,000
   b. total assets must equal $100,000
   c. net income for the past year was $100,000
   d. a total of $100,000 was invested by the owner
   e. none of the above

9. Providing services on account for $40,000 would:

   a. increase cash $40,000, decrease accounts receivable $40,000
   b. increase accounts receivable $40,000, increase owner's equity $40,000
   c. decrease accounts receivable $40,000, decrease owner's equity $40,000
   d. increase accounts receivable $40,000, decrease owner's equity $40,000
   e. none of the above

Use the following information to answer the next four questions.

Joseph Forbes is the owner of his own business. On December 31, Forbes' assets, liabilities, revenues and expenses were:

Insurance Expenses	$ 3,000	Accounts Payable	$ 4,000
Miscellaneous Expenses	900	Accounts Receivable	5,000
Rent Expenses	2,500	Cash	14,000
Salaries Expense	19,000	Equipment	11,000
Supplies Expense	1,200	Notes Payable	4,600
Services Performed	45,000	Supplies on hand	700

10. On December 31, total assets are equal to:

   a. $25,700
   b. $19,700
   c. $22,100
   d. $30,700
   e. none of the above

11. On December 31, net income is equal to:

a. $18,400
b. $45,000
c. $29,600
d. $17,400
e. none of the above

12. On December 31, if net income equals $15,000 and the ending owner's equity is $20,000, and Forbes invested an additional $2,600 in his business, while withdrawing $6,000 during the year, the beginning owner's equity for this year was:

a. $7,100
b. $7,400
c. $8,400
d. $7,430
e. none of the above

13. On December 31, current assets equal:

a. $9,000
b. $19,700
c. $19,000
d. $23,000
e. none of the above

14. New Font Software provided services for customers of $7,000. What is the entry if it billed customers for the total amount?

a. Debit accounts receivable $7,000; credit service revenue $7,000
b. Debit notes receivable $7,000; credit service revenue $7,000
c. Debit cash $7,000; credit service revenue $7,000
d. Debit service revenue $3,000; credit accounts receivable $7,000
e. none of the above

15. Current Landscaping paid salaries of $560 in cash. The accounting entry is:

a. Debit salaries expense $560; credit salaries payable $560
b. Debit salaries expense $560; credit cash $560
c. Debit cash $560; credit salaries expense $560
d. Debit accounts payable $560; credit cash $560
e. none of the above

16. The Philip Company received a bill for natural gas. The bill is for $550 and is payable in 30 days. The accounting entry is:

a. Debit accounts receivable $550; credit service revenue $550
b. Debit accounts payable $550; credit cash $550
c. Debit natural gas expense $550; credit accounts payable $550
d. Debit natural gas expense $550; credit cash $550
e. none of the above

17. The following includes the accounts of the Perry Company on December 31. What is the total on the trial balance?

Accounts Receivable	$1,000	Supplies Expense	250
Cash	4,500	Drawing Account	300
Equipment	4,000	Advertising Expense	50
Salaries Expense	1,600	Accounts Payable	3,050
Revenue Earned	2,800	Capital Account	6,050
Rent Expense	200		

a. $11,900
b. $12,000
c. $9,100
d. $11,600
e. none of the above

18. Which of the following transactions require a compound journal entry?

a. An owner invests personal cash in his/her business
b. Purchase of $ 100 of supplies; some cash and the rest on account
c. Purchase three kinds of supplies for cash
d. Received cash from customers as payment for services
e. none of the above

19. Cross-indexing:

a. shows the analysis of each transaction.
b. ties the journal and ledger together.
c. supplies an explanation of each transaction
d. removes complicated explanations from the accounts.
e. c and d

20. A truck was purchased on July 1 for $20,000. The estimated salvage value is $2,000. The estimated useful life is 3 years. Using straight-line method of depreciation, the amount of depreciation in the adjusting entry at fiscal year-end on December 31 is:

a.	Depreciation Expense-Truck	$555.56	
	Accumulated Depreciation-Truck		$555.56
b.	Accumulated Depreciation- Truck	$1,500	
	Depreciation Expense- Truck		$1,500
c.	Depreciation Expense- Truck	$500	
	Accumulated Depreciation- Truck		$500
d.	Depreciation Expense- Truck	$3,000	
	Accumulated Depreciation- Truck		3,000

21. A company paid in advance $4,800 for two years of prepaid insurance, which started on May 1. The adjusting entry on fiscal year ending December 31 of that year is:

a. Debit Insurance Expense; Credit Prepaid Insurance, $1,200
b. Debit Insurance Expense; Credit Prepaid Insurance, $ 800
c. Debit Prepaid Insurance; Credit Insurance Expense, $1,600
d. Debit Insurance Expense; Credit Prepaid Insurance, $1,600

22. On December 1 a company purchased supplies for $1,300. On December 31, an actual physical inventory showed that $800 of supplies were on hand. The closing adjusting entry is:

a. Debit Supplies Expense; Credit Supplies on Hand, $800
b. Debit Supplies Expense; Credit Supplies on Hand, $1,300
c. Debit Supplies Expense; Credit Supplies on Hand, $500
d. Debit Supplies on Hand; Credit Cash, $500

23. The first step in the accounting cycle is:

a. Prepare financial statements
b. Post journal entries to the accounts in the ledger
c. Journalize transactions in the journal
d. Analyze transactions by examining source documents

24. The Futures Company had revenues of $50,000 and expenses of $30,000 for the year. Mr. Futures withdrew $5,000 from the business during the year. The accounting entry to close the Income Summary Account is:

a.	Income Summary	$20,000	
	Mr. Futures capital		$20,000
b.	Mr. Futures capital	$20,000	
	Income Summary		$20,000
c.	Income Summary	$5,000	
	Mr.Futures drawing		$5,000
d.	Mr. Futures drawing	$5,000	
	Income Summary		$5,000

25. An example of an adjusting entry for deferred items is:

a. expense to asset
b. asset to expense
c. revenue to liability
d. liability to expense

26. CMU Corp, has $500,000 of accounts receivable and has found an average of 3% of its credit sales are uncollectible. Suppose CMU Corp. determines that a customer owing $10,000 will never pay. What would be the journal entry using the allowance method?

a.	Uncollectible Accounts Expense	$300	
	Allowance for Uncollectible Accounts		$300
b.	Allowance for Uncollectible Accounts	$300	
	Accounts Receivable		$300
c.	Uncollectible Accounts Expense	$10,000	
	Allowance for Uncollectible Accounts		$10,000
d.	Allowance for Uncollectible Accounts	$10,000	
	Accounts Receivable		$10,000

27. Rowe Inc. has a contract to construct a building for a price of $100. So far it has incurred $60 of costs and it estimates an additional $20 will be needed to finish the building. How much profit can be recognized using the percentage of completion method?

a. $ 0
b. $15
c. $20
d. $40
e. none of the above

28. Warriner, Ltd. Sells widgets for $100 (costing $70) with payments to be received in 10 equal installments of $10. If 3 payments have been received this year, using the installment basis of revenue recognition, what is the realized profit?

a. o
b. $3
c. $9
d. $30

29. Identify the advantage(s) of recognizing revenue at the time of sale.

a. The actual transaction is an observable event.
b. The likelihood of the sold item being returned for credit is remote.
c. All of the above
d. None of the above

30. Rowe, Inc. has a contract to construct a building for a price of $100. So far it has incurred $60 of costs and it estimates an additional $20 will be needed to finish the building. How much profit can be recognized using the completed contract method?

a. 0
b. $15
c. $20
d. $40

<u>Using the following 2 tables, answer the next four questions (Assuming Periodic Method)</u>.

Table of Inventory Purchases			
Date	Units	Unit Cost	Total cost
Beginning Inventory	10	$3	$30
February 3	5	4	20
April 10	15	5	75
June 12	12	7	84
August 20	20	8	160
Total	**62**		**369**

Sales				
Date	Units Identified	Units	Price	Total
March 5	February	5	$6	$30
May 2	April	10	6	60
July 4	June	2	10	20
September 1	June	8	10	80
		25		**$190**

31. Determine the cost of ending inventory under the specific identification method.

a. $190 c. $160
b. $229 d. $369

32. Determine the FIFO cost of ending inventory.

a. $179 c. $269
b. $190 d. $369

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33. Determine the LIFO cost of ending inventory.

a. $185 c. $190
b. $174 d. $369

34 Determine the ending inventory under the weighted-average method.

a. $190 c. $249
b. $220 d. $369

35 From a merchandiser's income statement, you know that Sales Revenue is $ 650,000 and the gross margin is 20%. What is the Cost of Goods Sold?

a. $650,000 c. $26,000
b. $130,000 d. $520,000

36. A manufacturer has beginning and ending finished goods inventory of $70, 000 and $90,000, respectively. Also, the cost of goods manufactured is $200,000. What is the Cost of Goods Sold?

a. $20,000 c. $180,000
b. $70,000 d. $270,000

Using the following table, answer the next four questions.

Machine Purchase Price	$80,000
Estimated Salvage Value	$20,000
Estimated Useful Life	5 years
Estimated Units of Production	12,000

37. What is the depreciation on the second year using the straight-line method?

a. 0 c. $12,000
b. $5,000 d. $16,000

38. What is the depreciation, using the units-of-production method in the second year, when 4,000 units are made?

a. $4,000 c. $20,000
b. $10,000 d. $27,000

39. What is the depreciation in the second year using the sum-of-the-years-digits method?

a. $36,000 c. $16,000
b. $48,000 d. $21,333

40. What is the depreciation using the double-declining balance method in the second year?

a. $32,000
b. $11,520
c. $19,200
d. $8,800

41. When a plant asset is retired from productive service and has no salvage value, originally cost $50,000, and had accumulated depreciation of $40,000, the correct accounting treatment is:

a. Plant Asset	$50,000	
Accumulated Depreciation		$40,000
Loss on Plant Assets		10,000
b. Loss on Plant Assets	$10,000	
Accumulated Depreciation	40,000	
Plant Asset		$50,000
c. Loss on Plant Asset	$10,000	
Plant Assets		$10,000

d. Nothing. The firm still has it.

42. Brooks Company consumed a natural resource in the amount of $5,000 during the current accounting period. What would be the journal to record the using up of this resource?

a. Depletion Expense	$5,000	
Accumulated Depletion		$5,000
b. Depletion Expense	$5,000	
Cash		$5,000
c. Depletion Expense	$5,000	
Depletable Asset		$5,000
d. Accumulated Depletion	$5,000	
Depletion Expense		$5,000

43. Smith. Corp. sold 100 shares of $50 par value common stock for $70 per share. What would be the correct journal entry to record the transaction?

a. Cash	$7,000	
Common Stock		$7,000
b. Cash	$7,000	
Common Stock		$5,000
Paid in Capital		2,000
c. Common Stock	$7,000	
Cash		$7,000
d. Cash	$7,000	
Common Stock		$2,000
Paid in Capital		5,000

44. Park Inc. earned EBIT of $10,000,000 last year. If its tax rate was 40%, interest expense was $2,000,000, and the number of common shares was 1,000,000, what is the firm's EPS?

a.	$8.00	c.	$4.80
b.	$6.00	d.	$4.00

45. Brooks Co. declared and paid a cash dividend of $5,000. What would be the journal entries?

a. Retained Earnings	$5,000	
Cash		$5,000
b. Retained Earnings	$5,000	
Dividends Payable		$5,000
c. Dividends Payable	$5,000	
Cash		$5,000
Retained Earnings	5,000	
Dividends Payable		5,000
d. Retained Earnings	$5,000	
Dividends Payable		$5,000
Dividends Payable	5,000	
Cash		5,000

46. A corporation issues $50,000 of a 8% coupon, $1,000 par value bonds. What would be the semi-annual interest payment journal entry?

a. Bonds Payable	$4,000	
Cash		$4,000
b. Bond Interest Expense	$4,000	
Cash		$4,000
c. Bonds Payable	$2,000	
Cash		$2,000
d. Bond Interest Expense	$2,000	
Cash		$2,000

47. Given the following balance sheets of three firms, which appears to have greater financial leverage?

	Firm A	Firm B	Firm C
Debt	$2	$40	$15
Equity	$8	$60	$35
Total Assets	$10	$100	$50

a. Firm A
b. Firm B
c. Firm C
d. All the same

48. Given the following income statements of three companies, which appears to have greater financial leverage based upon the times interest earned ratio which is EBIT divided by interest?

	Firm A	Firm B	Firm C
EBIT	$50	$100	$75
Interest	10	15	5
EBT	40	85	70
Taxes	20	45	50
EAT	20	40	20

a. Firm A
b. Firm B
c. Firm C
d. All the same

49. What is the maximum life that the intangible asset patent value can be amortized?

a. The asset's legal life
b. The useful life
c. 20 years
d. 40 years

50. A company is being sued for $100,000. What would be recorded on the balance sheet?

a. Nothing
b. $100,000 Set-aside Cash
c. $100,000 Liability
d. $100,000 Contingent Liability

PACE SAMPLE EXAM KEY

1.	c	26.	d
2.	d	27.	b
3.	e	28.	c
4.	b	29.	a
5.	a	30.	a
6.	e	31.	b
7.	e	32.	c
8.	a	33.	b
9.	b	34.	b
10.	d	35.	d
11.	a	36.	c
12.	c	37.	c
13.	b	38.	c
14.	a	39.	c
15.	b	40.	c
16.	c	41.	b
17.	a	42.	a
18.	b	43.	b
19.	b	44.	c
20.	d	45.	d
21.	d	46.	d
22.	c	47.	b
23.	d	48.	c
24.	a	49.	c
25.	b	50.	a