Accounting Competency Exam Sample Exam

1. A brand new company has machinery costing $7,500, a building costing $13,000, notes payable of $7,000 and cash of $2,500. If the owner adds $8,500 of inventory, assets are now equal to:

a. $20,500
b. $31,500
c. $9,500
d. $11,000

2. The Woodland Company is considering a $85 million expansion of its major production plant. All of the following are ways the company may pay for the plant expansion except

a. cash reserves.
b. selling a $85 million bond issue.
c. using $85 million of the allowance for accumulated depreciation account.
d. selling $85 million of a new common stock issue.

3. The Newberry Company is considering paying a $1.16 per share dividend to stockholders of record on October 15, 20XX. What must happen before the dividend can be paid?

a. The Board of Directors must vote and by majority agree to authorize any dividends.
b. Any mortgage payable must first be paid in full before any dividends may be paid.
c. The company president must agree to any dividend payments.
d. The Chief Financial Officer must agree to any dividend payments.

4. The Durand Bank is considering a 2 for 1 stock split. Currently, the company's stock is selling for $70 per share. What would you expect the stock price to be the day after the stock split?

a. Unknown, since there is too little information to calculate the new stock price.
b. It would continue to sell for $70 per share in an efficient market.
c. Fall to zero, since the stock split might signal troubles for the company.
d. Fall to $35.00 or exactly ½ of what it previously sold, given an efficient market.

5. Rusher Industries owns $14,000,000 in undeveloped land. In the near future it hopes to build a new plant on this land. Rusher Industries believes the land may have decreased slightly in value. What, if anything, should Rusher Industries do?

a. Nothing.
b. Depreciate the land to what they think it is currently worth.
c. Move it to a current asset category.
d. Consider the entire cost of the land as an expense in the current year.

6. Owner's equity is found in the:

a. balance sheet
b. income statement
c. liability section of the balance sheet.
d. long-term asset section of the balance sheet.

7. Your Uncle Bob suggested that he would like to give you $6000 to help defray some of your college expenses. He will either give you the money tomorrow or 4 years from now upon your graduation. Which of the following is a reason why you might want to suggest he give you the money now?

a. You need to pay someone to write a term paper for you next week.
b. You would like money for a gambling habit.
c. Money has time value.
d. You have no college expenses to pay currently.

8. When reviewing the Wilson Company's financial statements, you noted that the company paid out $385,000 in dividends during the current fiscal year. In this case you would know that dividends are

a. an expense to the company in the current year.
b. an expense to the company in the next year, since dividends are future directed.
c. a payment to current employees of the company for a job well done.
d. a deduction in the retained earnings account for the current year.

9. From a merchandiser's income statement you know the Sales revenues is $650,000 and the gross margin is 28%. What is the cost of Goods Sold?

a. $182,000
b. $678,000
c. $468,000
d. $622,000

10. McCoy and Sons collected $14,250 of its $38,000 account receivables. How does this transaction affect the balance sheet?

a. accounts receivable and owner's equity declined by $38,000
b. cash increases by $14,250, accounts receivable declines by $14,250
c. no net change in total assets, liabilities, or owner's equity
d. both cash and owner's equity increase by $14,250

Answer Key

1	2	3	4	5	6	7	8	9	10
B	C	A	D	A	A	C	D	C	B