



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

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

9. What is the purpose of adjusting entries?

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

10. What does equity represent in the accounting equation?

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

11. What is a journal entry?

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

12. An expense is:

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

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

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

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

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

15. Which of the following is a temporary account?

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

16. What is a "credit" in accounting?

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

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

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

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

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

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

20. What is a chart of accounts?

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



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

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

22. What is a subsidiary ledger?

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

23. What is the purpose of an audit?

- A) To prepare financial statements
- B) )

25. What is a contingent liability?

29.



32. What is a "deferred tax liability"?

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

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

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

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

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

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

## Answer Key

1. What is accounting?

A) The recording, classifying, and summarizing of financial transactions

2. Which account is increased with a debit?

C) Cash

3. Which account is decreased with a credit?

A) Accounts Receivable

4. Which of the following is considered an expense?

A) Rent Expense

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

B) To detail all debits and credits in individual accounts

6. The cash basis of accounting recognizes:

B) Revenues and expenses only when cash is received or paid

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

C) It provides a more accurate picture of a company's financial position

10. What does equity represent in the accounting equation?

B) The owners' claims on the assets of the business

11. What is a journal entry?

A) A record of a single transaction in the accounting system

12. An expense is:

C) Both A and B

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

B) The ease with which assets can be converted to cash

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

A) A trial balance is a preliminary statement, while a balance sheet is a formal financial statement

15. Which of the following is a temporary account?

C) Revenue

16. What is a "credit" in accounting?

C) An increase in a liability or equity account

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

A) The total revenue minus the total expenses

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

A) An expense that has been incurred but not yet paid

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

B) Sale of inventory for cash

20. What is a chart of accounts?

B) A detailed listing of all the company's accounts, typically organized by category

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

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

A) Gross profit is total revenue minus the cost of goods sold; net income is gross profit minus operating expenses

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

C) Revenue and expenses are recognized when they are earned and incurred

31. What is a "ledger" in accounting?

A) A book or computer file used to record all financial transactions

32. What is a "deferred tax liability"?

C) A future tax payment based on temporary differences between accounting and tax income

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

A) The principle that assets should be recorded at their original cost

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

B) To report the company's financial performance, including other comprehensive income

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

A) An asset that may arise based on the outcome of a future event