

Accounting Proficiency Test

1. Please indicate whether the nature of each transaction causes a debit or credit in the account noted. (Circle One)

a. An asset increases, do you debit or credit that asset account?

DEBIT CREDIT

b. A liability decreases, do you debit or credit that liability account?

DEBIT CREDIT

c. An income account decreases, do you debit or credit that income account?

DEBIT CREDIT

d. An expense account increases, do you debit or credit that expense account?

DEBIT CREDIT

e. The account “Accumulated Depreciation” increases, do you debit or credit that account?

DEBIT CREDIT

2. For the following accounts, please indicate whether they belong on the Balance Sheet or the Income Statement

Income	Balance
Statement	Sheet

- a. Rental Income
- b. Depreciation Expense
- c. Accumulated Depreciation
- d. Salary Expense
- e. Salaries Payable
- f. Property, Plant & Equipment
- g. Prepaid Rent Expense
- h. Cost of Goods Sold
- i. Retained Earnings
- j. Mortgage Interest Expense

- 3. Briefly explain the difference between a Balance Sheet, Income Statement and Statement of Cash Flows.**
- 4. Briefly explain the difference between cash basis and accrual basis.**
- 5. a. To what account does Net Income get closed to at the end of the fiscal year?**
- b. In the two accounts in 5a (Net Income and your answer), tell which account is debited and which one is credited.**
- 6. For each transaction below, please give the correct journal entry:**
- a. The business owner purchases a rental home for \$176,000.00. The business owner pays \$44,000.00 down and obtains a bank loan for the remainder due of \$132,000.00.

b. A paycheck is issued to an employee for a net check amount of \$808.50. The gross pay is \$1,000.00, the Social Security withholding is \$62.00, the Medicare withholding is \$14.50 and the Federal Income Tax withholding is \$115.00. Assume payroll tax liabilities are not paid until the following month.

c. The CPA has asked you to make an end-of-the year depreciation journal entry. The asset is a truck and the amount depreciated is \$1,326.00.

d. You receive an invoice from ABC Janitorial Service for \$135.00 on 12/21/01, and you pay the bill on 12/31/01.

Answers

1. Debit
 - a. Debit
 - b. Debit
 - c. Debit
 - d. Debit
 - e. Credit

2.

Income Statement	Balance Sheet	
<u>x</u>		a. Rental Income
<u>x</u>		b. Depreciation Expense
	<u>x</u>	c. Accumulated Depreciation
<u>x</u>		d. Salary Expense
	<u>x</u>	e. Salaries Payable
	<u>x</u>	f. Property, Plant & Equipment
<u>x</u>		g. Prepaid Rent Expense
<u>x</u>		h. Cost of Goods Sold
	<u>x</u>	i. Retained Earnings
<u>x</u>		j. Mortgage Interest Expense

2. A Balance Sheet provides information on a company's assets, liabilities and owner's equity on a specific date in time, for example 12/31/05. An Income Statement provides information on a company's revenues, expenses and net income over a certain period of time, for example 1/1/05 through 12/31/05. A Statement of Cash Flows provides information on a company's cash inflow and outflow covering all cash transactions including those related to assets, liabilities, owner's equity, income and expenses.

3. In cash basis accounting, revenue and expenses are not recognized (entered into the company books) until they are actually received or paid. In accrual basis accounting, revenue is recorded when earned, regardless of whether or not it is received, and expenses are recorded when they occur, regardless of whether or not they have been paid.

5.

- a. Retained Earnings
- b. Retained earnings is credited and Net Income is debited.

6.

a.

Debit Asset: Rental Home \$176,000
 Credit Liability: Mortgage Payable \$132,000
 Credit Cash \$44,000

b.

Debit Payroll Expense \$1,000

Debit Payroll Tax Expense \$76.50

Credit Cash \$808.50

Credit Payroll Taxes Payable \$268.00

c.

Credit Accumulated Depreciation Truck \$1,326.00

Debit Depreciation Expense \$1,326.00

d.

12/21/01

Debit Janitorial Expense \$135.00

Credit Accounts Payable \$135.00

12/31/01

Debit Accounts Payable \$135.00

Credit Cash \$135.00