InstantCert
ESTABLISHED IN 2002

Free Financial Accounting CLEP Practice Test

10 questions from InstantCert's 307-card Financial Accounting study guide

How to use this PDF

Each of these questions is a sentence with one blank and four choices. 8 of the 10 need arithmetic, so work them on paper before you pick, and do not just choose the closest-looking number. The answer key with the math written out starts after question 10, so do all 10 before you look. The key includes a T-account or worked chart for 6 of the 10 answers. No timer. On the real exam you get about 72 seconds per question, so if you want a challenge, give yourself 12 minutes for the set. One caveat before you start: this set has nothing on inventory methods, bonds, financial ratios, investments, or contingent liabilities, and the real exam also asks you to read statements, not only compute a number.

What your score means

0 to 4 correct

Financial Accounting is a skill more than a word list, and a score in this range usually means the mechanics are not there yet. Ten questions is a sample, not a diagnosis. Rework each one you missed on paper without the key, then take Round 2 on the page linked at the end before you decide how much work is ahead of you.

5 to 7 correct

Right in the middle. Close enough to the line to be worth studying for, and not close enough to walk in cold on an exam that 45% of civilian test takers and more than 7 in 10 military test takers do not pass. Take Round 2 and see if the number holds.

8 to 10 correct

Your mechanics are in good shape. Keep in mind that ten questions with no clock is a sample, that the real exam is about 75 questions at 72 seconds each, and that this set has nothing on inventory methods, bonds, financial ratios, investments, or contingent liabilities. Take Round 2, then rework anything you missed.

Questions

QUESTION 1 OF 10 | GENERAL TOPICS

The fundamental accounting equation is _____ = liabilities + owner's equity.

A. cost
B. assets
C. capital
D. investment

QUESTION 2 OF 10 | INCOME STATEMENT

Mayberry Inc. has sales of $14,000 and $10,000 of that is collected in cash. If the Net Income for Mayberry Inc. is $4,000, what are the total expenses? $_____

A. 10000
B. 14000
C. 8800
D. 11500

QUESTION 3 OF 10 | INCOME STATEMENT

If Abacus Corp has Net Sales of $28,460, a Gross Margin of 28%, and Net Income of $4,550; what is the total Cost of Goods Sold? $_____

A. 20494.35
B. 20491.20
C. 23910.50
D. 17491.20

QUESTION 4 OF 10 | GENERAL TOPICS

At the end of January, various utility bills totaling $450 are received. Utilities Expense is debited $450 and _____ is credited $450.

A. Accounts Receivable
B. Accrued Expenses
C. Accounts Payable
D. Prepaid Accounts

QUESTION 5 OF 10 | BALANCE SHEET

The equipment that LJM, Inc paid $7,200 for has a life expectancy of 10 years. At the end of January, one month's benefit has been used and the value of the equipment has depreciated. The Depreciation Expense account is debited what amount? _____

A. $30
B. $120
C. $90
D. $60

QUESTION 6 OF 10 | GENERAL TOPICS

At the end of January, LJM, Inc. has accrued one month's interest on the $4,000 loan it received from the bank at a yearly interest rate of 9%. Using a colon to separate the two answers, what type of account is debited and for how much? _____

A. Expense: $30
B. Accounts payable: $25
C. Notes payable: $36
D. Unearned revenues: $30

QUESTION 7 OF 10 | BALANCE SHEET

If an entity estimates that $3,000 of its AR is uncollectible, and prior to adjustments, the balance in the Allowance for Bad Debts account was a $1,200 credit; what is the adjusting entry for the Allowance for Bad Debts account (write as DR or CR : Amount--for example CR: $5000)? _____

A. DR: $1800
B. CR: $4200
C. DR: $4200
D. CR: $1800

QUESTION 8 OF 10 | INCOME STATEMENT

Suppose the direct materials used to produce a widget cost $10, and 1/2 hour of direct labor is involved at a rate of $12/hour, and an overhead rate of $8 per direct labor hour is used. What is the cost of the widget recorded as? _____

A. $20
B. $10
C. $24
D. $30

QUESTION 9 OF 10 | BALANCE SHEET

An entity buys a bottling machine with a list price of $30,000 and on terms of 2/10, n/30. Payment is made within a week and the cost of shipping is $150. The machine needs a special gate built and wiring installed at a cost of $700. To test the machine trial runs were done at a cost of $250 labor and $30 materials. The machine is recorded at a cost of what on the Balance Sheet? _____

A. $29430
B. $25130
C. $31130
D. $30530

QUESTION 10 OF 10 | STATEMENT OF CASH FLOWS

If an entity's Account Receivable increased from $64,000 to $78,000 and sales remained constant at $300,000, how much cash did the entity collect from its customers during the year? _____

A. $78000
B. $222000
C. $120000
D. $286000

Answer Key

1. B assets

This is the formal expression of the dual aspect concept of accounting. All the assets of a business are claimed by someone (owners or creditors) and the total of these claims can not exceed the total of the assets. When a transaction takes place, the result must balance the fundamental accounting equation thus the dual aspect or double sided entry method of accounting.

For example: Ms. Smith starts a business and puts $10,000 into the entity's bank account. The transaction is recorded as a $10,000 increase in the entity's cash and a $10,000 increase in Ms. Smith's equity (claim on the assets). The next day, Ms. Smith receives a bank loan of $5,000. This is recorded as a $5,000 increase in cash and a $5,000 liability (claim by a creditor on the assets).

Cash	$10, 000	Owner's Equity	$10,000
	5,000	Owed to Bank	5,000
Total Assets	$15,000	Total Equities	$15,000

Every transaction affects as least two accounts thus keeping the fundamental accounting equation balanced.

2. A 10000

Net Income = Revenue - Expense

4,000 = 14,000 - expenses

expenses = 10,000

Mayberry Inc.	
Income Statement	
For the **period ending** Dec 31, 2002	
Revenue	
Sales Revenue	$14,000
Less Expenses	
Inventory Expense	10,000
Net Income	$4,000

Remember: Revenue ≠ Cash

3. B 20491.20

This requires us to put together a couple of the equations we learned earlier:

Gross Margin % = Gross Margin / Net Sales
28% = GM/28,460
GM = 7,968.80

Net Sales – COGS = Gross Margin
28,460 – COGS = 7968.80
COGS = 20,491.20

Abacus Corp.	
Income Statement	
for the period ending December 31, 2003	
Net Sales	$28,460
Less: Cost of Goods Sold	20,491.20
Gross Margin	7968.80
Less: Expenses	3418.80
Net Income	$4550

4. C Accounts Payable

Utilities Expense	
DR	CR
450	

Accounts Payable	
DR	CR
	800
	5,750
	450

The bills arrived but have not been paid, therefore they are recorded as a liability (obligation to pay) and the utilities expense for January is increased. The liability is increased (cr) and the expense is increased which has the effect of decreasing retained earnings, thus equity is ultimately decreased (dr).

5. D $60

10 years equals 120 months, thus the amount "used-up" in January is $60 ($7,200 / 120). The Depreciation Expense account is increased (debited) by $60, and the Accumulated Depreciation account is increased (credited) by $60.

Accumulated Depreciation	
	60

Depreciation Expense	
60	

6. A Expense: $30

The interest due is an expense, therefore the Interest Expense account is debited. The amount is calculated by finding out how much interest you would pay in a year, and then divide that by 12 to find the monthly interest ($4,000 x 9% / 12) which equals $30. Because the interest has not yet been paid (it is just being calculated to accurately reflect the financial position of LJM at the end of January) the amount is shown as a liability in an account called Interest Payable (may be called Accrued Expenses). The amount in this account represents LJM's obligation to pay $30 in interest.

7. D CR: $1800

The total estimate for Allowance for Bad Debts is $3,000, if the balance is already at $1,200, then the adjusting entry is a credit for the difference to bring the balance in the account to $3,000.

8. A $20

product cost = direct materials + direct labor + overhead

= 10 + (0.5 * 12) + (0.5 * 8)

= 10 + 6 + 4 = $20

9. D $30530

On terms of 2/10 net 30, the entity pays $29,400 for the machine after the 2% discount for paying within 10 days. The freight, and all the labor and materials required to get the machine ready to generate revenue are added to the cost for a total of

$29,400 + 150+700+250+30= $30,530

10. D $286000

The entity made $300,000 in sales and only $14,000 ($78,000 - $64,000)of it was uncollected at the end of the year. Thus the company collected $286,000 cash.

Want 10 more? Take Round 2 online

Round 2 is 10 more questions from the same 307 cards. It covers solving the accounting equation for owner's equity, creditor claims vs. owner claims, accrued interest on a 1-year note, closing net income to Retained Earnings, repairing defective stock vs. selling it as is, ending inventory from purchases and gross margin, splitting partnership income, additional paid-in capital on a stock issue, book value per share, and break-even units. Take Round 1 on the page below, enter your email on the score screen, and the Round 2 link follows.

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The full Financial Accounting study guide

307 Financial Accounting flashcards, each one with an explanation of why the answer is right and the math written out on the calculation cards, plus the Specific Exam Feedback forum on DegreeForum.net, where members post what was on their exam. $20/month, cancel anytime. 30-day money-back guarantee. 83% of InstantCert students who reported a Financial Accounting score passed (196 of 237), against a civilian pass rate of 55% and a military pass rate of 28%.

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