Competency Exam – Practice

The competency exam consists of 15 multiple choice questions and one comprehensive Accounting Cycle Process problem. This competency exam practice document breaks the multiple choice questions and the Accounting Cycle Practice problem into two sections:

Section I
Competency Exam – Multiple Choice Questions

In order to prepare for the multiple choice questions on the competency exam, you should be prepared to answer questions based on the following topics:

- Understand the fundamental A = L + E equation.
- What are assets?
- What are liabilities?
- Understand the concept of contra-accounts.
- Understand the normal balances of accounts.
- Who uses financial information?
- What does financial information capture and report?
- When do companies have to report financial information? When is their year end?
- Understand the matching principle.
- Understand the revenue principle.
- Understand how to record a liability.
- Understand how to record an asset.
- Understand cash dividends.
- Understand which accounts are affected by an adjusting journal entry.
- Understand why adjusting journal entries are made.
- What is net income?
- Be able to calculate and record Interest Expense or Interest Revenue
- Be able to calculate and record depreciation expense using straight line depreciation
- Be able to record a simple common stock and APIC transaction
- Be able to record a cash dividend transaction
- What are the different trial balances and when are they used?
- Understand the closing process.
Section II
Competency Exam – Practice Problem

The following practice problem is an example of the material that will be tested on the competency exam. The actual exam is not as long as the practice problem and will not have you completing all parts below, but this comprehensive practice problem will prepare you for the Accounting Process Cycle problem in the competency exam. Use the information and worksheets to practice the problem. The answers have been provided. Use the following information and complete the instructions below:

For the past several years, John Addams has operated a part-time business from his home. As of April 1, 2002, John decided to move to rented quarters and to operate the business, which was to be known as Addams & Family Inc., on a full-time basis. Addams & Family entered into the following transactions during April:

April 4  The following assets were received from John Addams: cash, $10,000; accounts receivable, $1,500; supplies, $1,250; and office equipment, $7,500. There were no liabilities received.
April 4  Paid three months’ rent on a lease rental contract, $4,500.
April 4  Paid the premium on property and casualty insurance policies for the year, $1,800.
April 6  Received cash from clients as an advance payment for services to be provided, $3,000.
April 7  Purchased additional office furniture on account from Morrilton Company, $1,800.
April 8  Received cash from clients on account, $800.
April 11  Paid cash for newspaper advertisement, $120.
April 12  Paid Morrilton Company $800 for debt incurred on April 7.
April 15  Recorded services provided on account for the period April 4-15, $2,250
April 15  Paid part-time receptionist for two weeks salary, $400.
April 15  Recorded cash from cash clients for fees earned April 4-15, $3,175.
April 18  Paid cash for supplies, $750.
April 22  Recorded services provided on account for April 18-22, $1,100.
April 22  Recorded cash from cash clients for fees earned April 18-22, $1,850.
April 25  Received cash from clients on account, $1,600.
April 27  Paid part-time receptionist for two week’s salary, $400.
April 28  Paid telephone bill for April, $130.
April 29  Paid electric bill for April, $200.
April 29  Recorded cash from cash clients for fees earned April 25-29, $2,050.
April 29  Recorded services provided on account for April 25-29, $1,000.
April 29  John received $4,500 from the company as his salary.

Instructions: (First transaction has been recorded and posted for you).
1. Record the transactions stated above in good general journal form.
2. Post the transactions to T-accounts.
3. Record and post the following adjustments:
   a. Insurance expired in April, $150.
   b. Supplies on hand April 29, $1,020.
   c. Depreciation for the office equipment in April, $500.
   d. Accrued receptionist salary on April 30, $20.
   e. Rent expired in April, $1,500.
   f. Earned $2,000 of services that were previously paid for on 4/6.
5. Record and post closing entries.
6. Prepare a post-closing trial balance.
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<td></td>
<td>1,500</td>
</tr>
<tr>
<td>4/30</td>
<td>Unearned Revenue</td>
<td></td>
<td>2,000</td>
</tr>
<tr>
<td></td>
<td>(f) Service Revenue</td>
<td></td>
<td>2,000</td>
</tr>
</tbody>
</table>
### Cash

<table>
<thead>
<tr>
<th>Date</th>
<th>Amount</th>
<th>Balance</th>
</tr>
</thead>
<tbody>
<tr>
<td>4/4</td>
<td>10,000</td>
<td></td>
</tr>
<tr>
<td>4/6</td>
<td>3,000</td>
<td>1800</td>
</tr>
<tr>
<td>4/8</td>
<td>800</td>
<td>120 4/11</td>
</tr>
<tr>
<td>4/15</td>
<td>3,175</td>
<td>800 4/12</td>
</tr>
<tr>
<td>4/22</td>
<td>1,850</td>
<td>400 4/15</td>
</tr>
<tr>
<td>4/25</td>
<td>1,600</td>
<td>750 4/18</td>
</tr>
<tr>
<td>4/29</td>
<td>2,050</td>
<td>400 4/27</td>
</tr>
<tr>
<td></td>
<td></td>
<td>300 4/28</td>
</tr>
<tr>
<td></td>
<td></td>
<td>200 4/29</td>
</tr>
<tr>
<td></td>
<td></td>
<td>4500 4/29</td>
</tr>
<tr>
<td><strong>End Bal</strong></td>
<td></td>
<td><strong>8,875</strong></td>
</tr>
</tbody>
</table>

### Prepaid Insurance

<table>
<thead>
<tr>
<th>Date</th>
<th>Amount</th>
<th>Balance</th>
</tr>
</thead>
<tbody>
<tr>
<td>4/4</td>
<td>1,800</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>150 AJE (a)</td>
</tr>
<tr>
<td><strong>End Bal</strong></td>
<td></td>
<td><strong>1,650</strong></td>
</tr>
</tbody>
</table>

### Office Equipment

<table>
<thead>
<tr>
<th>Date</th>
<th>Amount</th>
<th>Balance</th>
</tr>
</thead>
<tbody>
<tr>
<td>4/4</td>
<td>7,500</td>
<td></td>
</tr>
<tr>
<td>4/7</td>
<td>1,800</td>
<td></td>
</tr>
<tr>
<td><strong>End Bal</strong></td>
<td></td>
<td><strong>9,300</strong></td>
</tr>
</tbody>
</table>

### Accounts Receivable

<table>
<thead>
<tr>
<th>Date</th>
<th>Amount</th>
<th>Balance</th>
</tr>
</thead>
<tbody>
<tr>
<td>4/4</td>
<td>1,500</td>
<td>800 4/8</td>
</tr>
<tr>
<td>4/15</td>
<td>2,250</td>
<td>1600 4/25</td>
</tr>
<tr>
<td>4/22</td>
<td>1,100</td>
<td></td>
</tr>
<tr>
<td>4/29</td>
<td>1,000</td>
<td></td>
</tr>
<tr>
<td><strong>End Bal</strong></td>
<td></td>
<td><strong>3,450</strong></td>
</tr>
</tbody>
</table>

### Accounts Payable

<table>
<thead>
<tr>
<th>Date</th>
<th>Amount</th>
<th>Balance</th>
</tr>
</thead>
<tbody>
<tr>
<td>4/12</td>
<td>800</td>
<td></td>
</tr>
<tr>
<td>4/7</td>
<td>1,800</td>
<td></td>
</tr>
<tr>
<td><strong>End Bal</strong></td>
<td></td>
<td><strong>1,000</strong></td>
</tr>
</tbody>
</table>

### Supplies

<table>
<thead>
<tr>
<th>Date</th>
<th>Amount</th>
<th>Balance</th>
</tr>
</thead>
<tbody>
<tr>
<td>4/4</td>
<td>1,250</td>
<td></td>
</tr>
<tr>
<td>4/18</td>
<td>750</td>
<td>980 AJE (b)</td>
</tr>
<tr>
<td><strong>End Bal</strong></td>
<td></td>
<td><strong>1,020</strong></td>
</tr>
</tbody>
</table>

### Salaries Payable

<table>
<thead>
<tr>
<th>Date</th>
<th>Amount</th>
<th>Balance</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>20 AJE (d)</td>
</tr>
<tr>
<td><strong>End Bal</strong></td>
<td></td>
<td><strong>20</strong></td>
</tr>
</tbody>
</table>

### Prepaid Rent

<table>
<thead>
<tr>
<th>Date</th>
<th>Amount</th>
<th>Balance</th>
</tr>
</thead>
<tbody>
<tr>
<td>4/4</td>
<td>4,500</td>
<td>1,500 AJE (e)</td>
</tr>
<tr>
<td><strong>End Bal</strong></td>
<td></td>
<td><strong>3,000</strong></td>
</tr>
</tbody>
</table>

### Unearned Revenue

<table>
<thead>
<tr>
<th>Date</th>
<th>Amount</th>
<th>Balance</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>2,000</td>
</tr>
<tr>
<td>AJE (f)</td>
<td>3,000</td>
<td></td>
</tr>
<tr>
<td><strong>End Bal</strong></td>
<td></td>
<td><strong>1,000</strong></td>
</tr>
<tr>
<td>Account</td>
<td>4/1</td>
<td>4/4</td>
</tr>
<tr>
<td>-------------------------</td>
<td>-----</td>
<td>-----</td>
</tr>
<tr>
<td>Contributed Capital</td>
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<td></td>
</tr>
<tr>
<td>End Bal</td>
<td></td>
<td>20,250</td>
</tr>
<tr>
<td>Retained Earnings</td>
<td>0</td>
<td></td>
</tr>
<tr>
<td>End Bal</td>
<td></td>
<td>-</td>
</tr>
<tr>
<td>Service Revenue</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2,250 4/15</td>
<td></td>
<td></td>
</tr>
<tr>
<td>3,175 4/15</td>
<td></td>
<td></td>
</tr>
<tr>
<td>1,100 4/22</td>
<td></td>
<td></td>
</tr>
<tr>
<td>1,850 4/22</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2,050 4/29</td>
<td></td>
<td></td>
</tr>
<tr>
<td>1,000 4/29</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2,000 AJE (f)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>End Bal</td>
<td></td>
<td>13,425</td>
</tr>
<tr>
<td>Insurance Expense</td>
<td></td>
<td></td>
</tr>
<tr>
<td>AJE (a) 150</td>
<td></td>
<td></td>
</tr>
<tr>
<td>End Bal</td>
<td></td>
<td>150</td>
</tr>
<tr>
<td>Rent Expense</td>
<td></td>
<td></td>
</tr>
<tr>
<td>AJE (e) 1,500</td>
<td></td>
<td></td>
</tr>
<tr>
<td>End Bal</td>
<td></td>
<td>1,500</td>
</tr>
<tr>
<td>Supplies Expense</td>
<td></td>
<td></td>
</tr>
<tr>
<td>AJE (b) 980</td>
<td></td>
<td></td>
</tr>
<tr>
<td>End Bal</td>
<td></td>
<td>980</td>
</tr>
<tr>
<td>Salaries Expense</td>
<td></td>
<td></td>
</tr>
<tr>
<td>4/15 400</td>
<td></td>
<td></td>
</tr>
<tr>
<td>4/27 400</td>
<td></td>
<td></td>
</tr>
<tr>
<td>4/29 4,500</td>
<td></td>
<td></td>
</tr>
<tr>
<td>AJE (d) 20</td>
<td></td>
<td></td>
</tr>
<tr>
<td>End Bal</td>
<td></td>
<td>5,320</td>
</tr>
<tr>
<td>Telephone Expense</td>
<td></td>
<td></td>
</tr>
<tr>
<td>4/28 130</td>
<td></td>
<td></td>
</tr>
<tr>
<td>End Bal</td>
<td></td>
<td>130</td>
</tr>
<tr>
<td>Utilities Expense</td>
<td></td>
<td></td>
</tr>
<tr>
<td>4/29 200</td>
<td></td>
<td></td>
</tr>
<tr>
<td>End Bal</td>
<td></td>
<td>200</td>
</tr>
<tr>
<td>Advertising Expense</td>
<td></td>
<td></td>
</tr>
<tr>
<td>4/11 120</td>
<td></td>
<td></td>
</tr>
<tr>
<td>End Bal</td>
<td></td>
<td>120</td>
</tr>
<tr>
<td>Account</td>
<td>Debit</td>
<td>Credit</td>
</tr>
<tr>
<td>----------------------------------------</td>
<td>--------</td>
<td>--------</td>
</tr>
<tr>
<td>Cash</td>
<td>$8,875</td>
<td></td>
</tr>
<tr>
<td>Accounts Receivable</td>
<td>3,450</td>
<td></td>
</tr>
<tr>
<td>Prepaid Rent</td>
<td>3,000</td>
<td></td>
</tr>
<tr>
<td>Prepaid Insurance</td>
<td>1,650</td>
<td></td>
</tr>
<tr>
<td>Supplies</td>
<td>1,020</td>
<td></td>
</tr>
<tr>
<td>Office Equipment</td>
<td>9,300</td>
<td></td>
</tr>
<tr>
<td>Accumulated Depreciation, Equipment</td>
<td></td>
<td>$500</td>
</tr>
<tr>
<td>Accounts Payable</td>
<td></td>
<td>1,000</td>
</tr>
<tr>
<td>Salaries Payable</td>
<td></td>
<td>20</td>
</tr>
<tr>
<td>Unearned Revenue</td>
<td></td>
<td>1,000</td>
</tr>
<tr>
<td>Contributed Capital</td>
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<tr>
<td>Retained Earnings</td>
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<td>0</td>
</tr>
<tr>
<td>Dividends Declared</td>
<td></td>
<td>0</td>
</tr>
<tr>
<td>Service Revenue</td>
<td></td>
<td>13,425</td>
</tr>
<tr>
<td>Insurance Expense</td>
<td></td>
<td>150</td>
</tr>
<tr>
<td>Depreciation Expense</td>
<td></td>
<td>500</td>
</tr>
<tr>
<td>Rent Expense</td>
<td></td>
<td>1,500</td>
</tr>
<tr>
<td>Supplies Expense</td>
<td></td>
<td>980</td>
</tr>
<tr>
<td>Salaries Expense</td>
<td></td>
<td>5,320</td>
</tr>
<tr>
<td>Telephone Expense</td>
<td></td>
<td>130</td>
</tr>
<tr>
<td>Utilities Expense</td>
<td></td>
<td>200</td>
</tr>
<tr>
<td>Advertising Expense</td>
<td></td>
<td>120</td>
</tr>
<tr>
<td></td>
<td>$36,195</td>
<td>$36,195</td>
</tr>
</tbody>
</table>
Addams & Family Inc.

Income Statement

For the Year Ended April 30, 2010

<table>
<thead>
<tr>
<th>Revenues</th>
<th>$ 13,425</th>
</tr>
</thead>
<tbody>
<tr>
<td>Service Revenue</td>
<td></td>
</tr>
<tr>
<td>Total Revenues</td>
<td>13,425</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Expenses</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Insurance Expense</td>
<td>150</td>
</tr>
<tr>
<td>Depreciation Expense</td>
<td>500</td>
</tr>
<tr>
<td>Rent Expense</td>
<td>1,500</td>
</tr>
<tr>
<td>Supplies Expense</td>
<td>980</td>
</tr>
<tr>
<td>Salaries Expense</td>
<td>5,320</td>
</tr>
<tr>
<td>Telephone Expense</td>
<td>130</td>
</tr>
<tr>
<td>Utilities Expense</td>
<td>200</td>
</tr>
<tr>
<td>Advertising Expense</td>
<td>120</td>
</tr>
<tr>
<td>Total Expenses</td>
<td>8,900</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Net Income (Loss)</th>
<th>$ 4,525</th>
</tr>
</thead>
<tbody>
<tr>
<td>Description</td>
<td>Amount</td>
</tr>
<tr>
<td>--------------------------------------------------</td>
<td>---------</td>
</tr>
<tr>
<td>Beg Retained Earnings, 4/1/10</td>
<td>$ 0</td>
</tr>
<tr>
<td>Add: Net Income</td>
<td>4,525</td>
</tr>
<tr>
<td>Less: Dividends</td>
<td>0</td>
</tr>
<tr>
<td>End Retained Earnings, 4/30/10</td>
<td>$ 4,525</td>
</tr>
</tbody>
</table>

Addams & Family Inc.
Statement of Retained Earnings
For the Year Ended April 30, 2010
<p>| Addams &amp; Family Inc. |
|----------------------|---|
| Balance Sheet | At April 30, 2010 |
| Assets | |
| Current Assets |
| Cash | $ 8,875 |
| Accounts Receivable | 3,450 |
| Prepaid Rent | 3,000 |
| Prepaid Insurance | 1,650 |
| Supplies | 1,020 |
| Total Current Assets | $ 17,995 |
| Property Plant &amp; Equipment |
| Office Equipment | 9,300 |
| Accumulated Depreciation | (500) |
| Property Plant &amp; Equipment, Net | 8,800 |
| Total Assets | 26,795 |
| Liabilities &amp; Stockholders' Equity | |
| Liabilities |
| Current Liabilities |
| Accounts Payable | 1,000 |
| Salaries Payable | $ 20 |
| Total Current Liabilities | 1,020 |
| Unearned Revenue | 1,000 |
| Total Liabilities | 2,020 |
| Stockholders' Equity |
| Contributed Capital | 20,250 |
| Retained Earnings | 4,525 |
| Total Stockholders' Equity | 24,775 |
| Total Liabilities &amp; Stockholders' Equity | $ 26,795 |</p>
<table>
<thead>
<tr>
<th>Date</th>
<th>Account Title</th>
<th>Debit</th>
<th>Credit</th>
</tr>
</thead>
<tbody>
<tr>
<td>4/30</td>
<td>Service Revenue</td>
<td>13,425</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Insurance Expense</td>
<td>150</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Depreciation Expense</td>
<td>500</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Rent Expense</td>
<td>1,500</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Supplies Expense</td>
<td>980</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Salaries Expense</td>
<td>5,320</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Telephone Expense</td>
<td>130</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Utilities Expense</td>
<td>200</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Advertising Expense</td>
<td>120</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Retained Earnings</td>
<td>4,525</td>
<td></td>
</tr>
</tbody>
</table>

(To close Revenues and Expenses to Retained Earnings)

4/30 Note, we did record any dividends during the period and therefore do not have an entry to close dividends to retained earnings. If we had declared and paid a dividend during the period, we would simply:

Dr. Retained Earnings and Cr. Dividends Declared

Remember, dividends are not an expense; they are a distribution to the owner(s).
<table>
<thead>
<tr>
<th>Account</th>
<th>Debit</th>
<th>Credit</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash</td>
<td>$ 8,875</td>
<td></td>
</tr>
<tr>
<td>Accounts Receivable</td>
<td>3,450</td>
<td></td>
</tr>
<tr>
<td>Prepaid Rent</td>
<td>3,000</td>
<td></td>
</tr>
<tr>
<td>Prepaid Insurance</td>
<td>1,650</td>
<td></td>
</tr>
<tr>
<td>Supplies</td>
<td>1,020</td>
<td></td>
</tr>
<tr>
<td>Office Equipment</td>
<td>9,300</td>
<td></td>
</tr>
<tr>
<td>Accumulated Depreciation, Equipment</td>
<td>500</td>
<td></td>
</tr>
<tr>
<td>Accounts Payable</td>
<td>1,000</td>
<td></td>
</tr>
<tr>
<td>Salaries Payable</td>
<td>20</td>
<td></td>
</tr>
<tr>
<td>Unearned Revenue</td>
<td>1,000</td>
<td></td>
</tr>
<tr>
<td>Contributed Capital</td>
<td>20,250</td>
<td></td>
</tr>
<tr>
<td>Retained Earnings</td>
<td>4,525</td>
<td></td>
</tr>
<tr>
<td>Dividends Declared</td>
<td>0</td>
<td></td>
</tr>
<tr>
<td>Service Revenue</td>
<td>0</td>
<td></td>
</tr>
<tr>
<td>Insurance Expense</td>
<td>0</td>
<td></td>
</tr>
<tr>
<td>Depreciation Expense</td>
<td>0</td>
<td></td>
</tr>
<tr>
<td>Rent Expense</td>
<td>0</td>
<td></td>
</tr>
<tr>
<td>Supplies Expense</td>
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<td></td>
</tr>
<tr>
<td>Salaries Expense</td>
<td>0</td>
<td></td>
</tr>
<tr>
<td>Telephone Expense</td>
<td>0</td>
<td></td>
</tr>
<tr>
<td>Utilities Expense</td>
<td>0</td>
<td></td>
</tr>
<tr>
<td>Advertising Expense</td>
<td>0</td>
<td></td>
</tr>
</tbody>
</table>

$ 27,295    $ 27,295