

# Basic Accounting Principles: A Beginner's Guide

Accounting · Practice Test · 15 Questions

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## 1. What is the primary purpose of accounting?

- A) To identify, measure, and communicate financial information for decision-making.
- B) To minimize business expenses.
- C) To maximize profits.
- D) To manage employee salaries.

## 2. Which of the following is NOT one of the five main financial statements?

- A) Balance Sheet
- B) Income Statement
- C) Statement of Changes in Equity
- D) Cash Flow Forecast

## 3. What is the fundamental accounting equation?

- A)  $\text{Assets} = \text{Liabilities} + \text{Owner's Equity}$
- B)  $\text{Assets} - \text{Liabilities} = \text{Revenue}$
- C)  $\text{Revenue} - \text{Expenses} = \text{Net Income}$
- D)  $\text{Assets} + \text{Liabilities} = \text{Owner's Equity}$

## 4. What are assets?

- A) The resources owned by a business.
- B) The debts owed by a business.
- C) The owner's investment in the business.
- D) The expenses incurred by a business.

## 5. What are liabilities?

- A) The obligations of a business to others.
- B) The resources owned by a business.
- C) The owner's equity in the business.
- D) The revenues earned by a business.

## 6. What is owner's equity?

- A) The owner's stake in the business.
- B) The debts owed by the business.
- C) The resources owned by the business.
- D) The expenses incurred by the business.

**7. What is the purpose of the income statement?**

- A) To measure a company's financial performance over a period of time.
- B) To show a company's assets, liabilities, and equity at a specific point in time.
- C) To track the movement of cash in and out of a company.
- D) To detail all financial transactions.

**8. What is the end goal of the accounting process?**

- A) To prepare financial statements.
- B) To minimize expenses.
- C) To maximize revenue.
- D) To analyze market trends.

**9. What is the first step in the accounting cycle?**

- A) Identifying and analyzing business transactions.
- B) Journalizing.
- C) Posting.
- D) Preparing the unadjusted trial balance.

**10. If a company's assets are \$760,000 and its liabilities are \$360,000, what is the owner's equity?**

- A) \$400,000
- B) \$1,120,000
- C) \$360,000
- D) \$760,000

**11. Which of the following is an example of an asset?**

- A) Cash
- B) Accounts Payable
- C) Loans Payable
- D) Salaries Expense

**12. Which of the following is an example of a liability?**

- A) Accounts Payable
- B) Cash
- C) Inventory
- D) Equipment

**13. What is the formula for calculating net income?**

- A) Revenues - Expenses
- B) Assets - Liabilities
- C) Assets + Owner's Equity
- D) Liabilities + Expenses

**14. If a company has revenues of \$840,000 and a profit of \$360,000, what are its expenses?**

- A) \$480,000
- B) \$1,200,000
- C) \$360,000
- D) \$840,000

**15. What does a balance sheet show?**

- A) A company's assets, liabilities, and equity at a specific point in time.
- B) A company's financial performance over a period of time.
- C) The movement of cash in and out of a company.
- D) A company's marketing strategy.