

### *PRINCIPLES OF FINANCIAL ACCOUNTING*

#### TEST INFORMATION

This test was developed to enable schools to award credit to students for knowledge equivalent to that which is learned by students taking the course. The school may choose to award college credit to the student based on the achievement of a passing score. The passing score for each examination is determined by the school based on recommendations from the American Council on Education (ACE). This minimum credit-awarding score is equal to the mean score of students in the norming sample who received a grade of C in the course. Some schools set their own standards for awarding credit and may require a higher score than the ACE recommendation. Students should obtain this information from the institution where they expect to receive credit.

The use of non-programmable calculators is permitted during the test. Scratch paper for computations should be provided.

#### CONTENT

The following topics, which are commonly taught in courses on this subject, are covered by this examination:

	<b>Approximate Percent</b>
General concepts and principles	<b>12%</b>
Accounting cycle and account classification	<b>7%</b>
Transaction analysis and accounting equation	<b>11%</b>
Adjusting entries; accruals and deferrals	<b>11%</b>
Merchandising transactions	<b>4%</b>
Cash and internal control	<b>7%</b>
Current accounts - marketable securities, receivables and inventories	<b>17%</b>
Property, plant, and equipment	<b>4%</b>
Long- and short-term liabilities and interest calculations	<b>11%</b>
Capital stock, retained earnings, and dividends	<b>4%</b>
Financial statements - their components and interpretation	<b>12%</b>

Questions on the test require candidates to demonstrate the following abilities. Some may require more than one of the abilities.

- Knowledge of basic facts and terms (about 25-35 percent of the examination)
- Understanding of concepts and principles (about 25-35 percent of the examination)
- Ability to apply knowledge to specific problems and situations (about 35-45 percent of the examination)

#### SAMPLE QUESTIONS

1. All of the following are considered asset accounts EXCEPT
  - (A) short-term investments
  - (B) capital stock
  - (C) cash
  - (D) land
2. On January 2, XYZ Company pays salaries previously accrued as of December 31. As a result of this transaction, the effect on the accounting equation is
  - (A) an increase in assets, an increase in liabilities
  - (B) a decrease in assets, a decrease in owners' equity
  - (C) a decrease in assets, a decrease in liabilities
  - (D) a decrease in assets, an increase in liabilities



3. Cam Company sends a check for \$12,000 to Ray Realtors on December 15 for next year's rent on a warehouse building. CAM Company will initially classify this payment as
- (A) an operating expense
  - (B) an intangible asset
  - (C) a prepaid asset
  - (D) a prepaid expense

4. XYZ Company, which uses the periodic inventory method, has the following record for a particular inventory item.

		Beginning
Jan 1	Balance	100 units @ \$3.00
Feb 15	Purchase	400 units @ \$3.10
June 7	Purchase	500 units @ \$3.20
Oct 29	Purchase	400 units @ \$3.30

If 200 units remain in the inventory at December 31, what is their LIFO cost?

- (A) \$610
  - (B) \$630
  - (C) \$650
  - (D) \$660
5. A bank reconciliation is performed in order to
- (A) verify the accuracy of a company's recorded cash balance
  - (B) ensure that all bank loans have been properly accounted for
  - (C) verify that all cash disbursements are for a legitimate business purpose
  - (D) verify that only authorized personnel signed the disbursement checks

MACRS Recovery Allowance Percentages  
for Personal Property (not Real Estate)

Ownership Year	<u>Class of Investment</u>			
	3-Year	5-Year	7-Year	10-Year
1	33%	20%	14%	10%
2	45	32	25	18
3	15	19	17	14
4	7	12	13	12
5		11	9	9
6		6	9	7
7			9	7
8			4	7
9				7
10				6
11				<u>3</u>
	<u>100%</u>	<u>100%</u>	<u>100%</u>	<u>100%</u>

6. A truck with a salvage value of \$2,000 and a class life of 10 years was purchased for \$32,000. According to the depreciation expense for the second year under the modified accelerated cost recovery system (MACRS) method is
- (A) \$2,900
  - (B) \$4,800
  - (C) \$5,120
  - (D) \$6,400
7. RAM Company keeps its records on a calendar-year basis and makes adjusting entries only at the close of each year. The unadjusted trial balance for December 31, Year 1, shows Unearned Revenue of \$1,200 for a year's rent collected on October 1, Year 1. The rent is a one-year lease ending September 30, Year 2. The adjusting entry needed on December 31, Year 2, should include a debit to
- (A) unearned revenue for \$300
  - (B) unearned revenue for \$900
  - (C) rental revenue for \$300
  - (D) rental revenue for \$1,200

8. A company receives a \$5,000, 60-day, 8 percent note dated May 1, Year 1. What is the total amount of cash to be collected on the due date? (Assume a 360-day year.)
- (A) \$5,006.67  
 (B) \$5,050.00  
 (C) \$5,066.67  
 (D) \$5,666.67
9. Which of the following best describes the calculation of the gross profit rate?
- (A) Net income is divided by net sales.  
 (B) Net sales is divided by net assets.  
 (C) The cost of goods sold is added to operating expenses, and the sum is divided by net sales.  
 (D) The cost of goods sold is subtracted from net sales, and the difference is divided by net sales.
10. Bonds with a face value of \$100,000 are sold at 97½. This transaction will result in recording
- (A) a discount of \$975.00  
 (B) a premium of \$1,097.50  
 (C) a discount of \$2,500.00  
 (D) an accrued interest of \$9,750.00
11. On the date that a company declares a cash dividend, which of the following is true?
- (A) Checks are mailed to the stockholders.  
 (B) The company incurs a liability.  
 (C) The stockholders' equity is increased.  
 (D) The assets of the firm are decreased.
12. Which of the following would be of LEAST value in predicting a company's future net income?
- (A) Extraordinary items of income  
 (B) Comparative income statements  
 (C) Net income from continuing operations  
 (D) An analysis of future changes in tax rates

## STUDYING FOR THE EXAMINATION

The following is a list of reference publications that were being used as textbooks in college courses of the same or similar title at the time the test was developed. Appropriate textbooks for study are not limited to those listed below. If you wish to obtain study resources to prepare for the examination, you may reference either the current edition of the following titles **or** textbooks currently used at a local college or university for the same class title. It is recommended that you reference **more than one textbook** on the topics outlined in this fact sheet. You should **begin by checking textbook content against the content outline** included on the front page of this Fact Sheet/Study Guide **before** selecting textbooks that cover the test content from which to study. Textbooks may be found at the campus bookstore of a local college or university offering a course on the subject.

Sources for study material suggested but not limited to the following:

Asman, Mark F., Cowen, Scott S., and Mandell, Steven L. *Accounting Today: Principles and Applications*. St. Paul, Minn: West Publishing Co., current edition.

Diamond, Michael A., Flamholtz, Eric G., and Flamholtz, Diane T. *Financial Accounting*. Boston, MA: PWS-KENT Publishing Co., current edition.

Larson, Kermit D., and Miller, Paul B. W. *Financial Accounting*. Homewood, IL: Richard D. Irwin, Inc., current edition.

Meigs, Walter B., and Meigs, Robert F. *Financial Accounting*. New York: McGraw-Hill Book Co., current edition.

Needles, Belverd E., Jr. *Financial Accounting*. Boston, MA: Houghton Mifflin Co., current edition.

Walgenbach, Paul H., Hanson, Ernest I.,  
*Financial Accounting - An Introduction*. San  
Diego, CA: Harcourt Brace Jovanovich Inc.,  
current edition.

Current textbook used by a local college or  
university for a course on the subject.

### **CREDIT RECOMMENDATIONS**

The Center For Adult Learning and Educational  
Credentials of the American Council on Education  
(ACE) has reviewed and evaluated the DANTES  
examination development process. The American  
Council on Education has made the following  
recommendations:

Area or Course	
Equivalent:	Financial Accounting
Level:	Lower level baccalaureate
Amount of Credit:	Three (3) semester hours
Source:	ACE Commission on Educational Credit and Credentials

### **INFORMATION**

Colleges and universities that would like to review  
copies of tests, have additional information about  
the national norming, or assistance in local norming  
or score validation studies should write to:  
DANTES Program, Mail Stop 11-P, The Chauncey  
Group International, 664 Rosedale Road, Princeton,  
New Jersey 08540.

It is advisable that schools develop a consistent  
policy about awarding credit based on scores from  
this test and that the policy be reviewed  
periodically. The Chauncey Group will be happy to  
help schools in this effort.

Correct responses to sample questions: 1.B; 2.C; 3.D; 4.A; 5.A; 6.C; 7.B; 8.C; 9.D; 10.C; 11.B; 12.A

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