BPA Advanced Accounting Practice Test (Sample)

Study Guide

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<u>Questions</u>

1. **What denotes the proportion of net income that a company generates relative to its total assets?**
   - A. Return on Investment
   - B. Rate of Return
   - C. Return on Assets
   - D. Asset Utilization Ratio

2. **What is a computerized cash payments system that transfers funds without the use of checks, currency, or other paper documents?**
   - A. Wire transfer
   - B. Electronic Funds Transfer (EFT)
   - C. Automated Clearing House (ACH)
   - D. Direct deposit

3. **What does the process of paying the amounts owed to bondholders for a bond issue refer to?**
   - A. Issuing bonds
   - B. Retiring a bond issue
   - C. Refinancing bonds
   - D. Redeeming bonds

4. **What is the role of the person who gives goods on consignment?**
   - A. Consignee
   - B. Vendor
   - C. Consignor
   - D. Buyer

5. **What term describes transferring information from a journal entry to a ledger account?**
   - A. Posting
   - B. Filging
   - C. Recording
   - D. Summarizing

6. What does the term 'equities' refer to in accounting?

- **A. Rights to the assets**
- **B. Assets owned by the business**
- **C. Liabilities owed by the business**
- **D. Owner's investments in the business**

7. What is the name of a listing that includes customer accounts and the total amount due from all customers?

- **A. Accounts receivable report**
- **B. Schedule of accounts receivable**
- **C. Customer ledger**
- **D. Accounts summary**

8. What term refers to a long-term promise to pay a specified amount on a certain date while also paying interest?

- **A. Equity**
- **B. Bond**
- **C. Note payable**
- **D. Dividend**

9. What value is associated with unredeemed gift cards?

- **A. Premium**
- **B. Breakage**
- **C. Depreciation**
- **D. Amortization**

10. Which accounting form summarizes the earnings, deductions, and net pay of all employees for one pay period?

- **A. Payroll register**
- **B. Employee earnings record**
- **C. Paycheck stub**
- **D. Tax form**

Answers

1. C
2. B
3. B
4. C
5. A
6. A
7. B
8. B
9. B
10. A

Explanations

1. What denotes the proportion of net income that a company generates relative to its total assets?

A. Return on Investment

B. Rate of Return

C. Return on Assets

D. Asset Utilization Ratio

The concept that denotes the proportion of net income a company generates relative to its total assets is known as Return on Assets (ROA). This financial metric is crucial because it illustrates how efficiently a company is using its assets to produce profit. ROA is calculated by dividing net income by total assets, providing insight into how well management is utilizing the company's assets to generate earnings. A high ROA indicates effective management and a good utilization of assets, while a low ROA may suggest inefficiencies. It allows investors to assess how well a company converts its investments in assets into profits. Other terms, while related to assessing performance or returns, do not specifically measure this relationship between net income and total assets as clearly as ROA does. For instance, Return on Investment (ROI) generally focuses on the efficiency of an individual investment rather than the total assets of the company. Rate of Return may refer to various contexts and does not specifically tie directly to total assets either. Asset Utilization Ratio pertains to how effectively a company employs its assets but does not directly correlate with net income in the same way that ROA does. Therefore, Return on Assets is the metric that directly addresses the proportion of net income generated from total assets.

2. What is a computerized cash payments system that transfers funds without the use of checks, currency, or other paper documents?

A. Wire transfer

B. Electronic Funds Transfer (EFT)

C. Automated Clearing House (ACH)

D. Direct deposit

The term that best describes a computerized cash payments system which transfers funds without the use of checks, currency, or other paper documents is Electronic Funds Transfer (EFT). This system encompasses a wide range of electronic transactions that facilitate the movement of money between bank accounts, enabling individuals and businesses to send and receive funds quickly and securely. EFT can include direct deposits, wire transfers, and transactions conducted over the internet. EFT streamlines financial transactions, reducing the reliance on physical payment methods and paper documentation. This efficiency can enhance the speed of transactions and improve cash flow for businesses and individuals alike. The use of secure networks ensures that transfers are reliable, accurate, and less prone to fraud compared to traditional methods. While other options, like wire transfer and direct deposit, fall under the broader category of EFT, they represent specific types of electronic transactions rather than the entire system. Automated Clearing House (ACH) is also a component of EFT, specifically used for batch processing of transactions, commonly seen in payroll and ACH payments. Nonetheless, EFT is the overarching system that captures the essence of computerized cash payments without involving physical documents.

3. What does the process of paying the amounts owed to bondholders for a bond issue refer to?

A. Issuing bonds

B. Retiring a bond issue

C. Refinancing bonds

D. Redeeming bonds

The process of paying the amounts owed to bondholders for a bond issue is referred to as redeeming bonds. When a company redeems bonds, it is repaying the principal amount of the bond to the bondholders, along with any final interest payments due. This action signifies the conclusion of the bond's life cycle within the company's liabilities. Retiring a bond issue is a related concept; it typically involves the removal of the bonds from the books after they have been paid off. However, the key action described in the question is specifically about the payment process to the bondholders, which is more accurately captured by the term "redeeming." Issuing bonds pertains to the initial process of creating and selling bonds to investors, and refinancing bonds involves replacing existing debt with new debt, often under more favorable terms. While these terms are associated with bonds, they do not describe the act of providing payments to bondholders for money owed. Therefore, the identification of redeeming bonds as the answer emphasizes the connection between the bondholder payment process and the conclusion of the bond's obligation.

4. What is the role of the person who gives goods on consignment?

A. Consignee

B. Vendor

C. Consignor

D. Buyer

The person who gives goods on consignment is referred to as the consignor. This individual retains ownership of the goods while providing them to another party, known as the consignee, to sell on their behalf. The consignor is responsible for supplying the goods and may set specific terms regarding pricing and the duration for which the goods can be held for sale. Typically, the consignee pays the consignor only after the goods are sold, which allows the consignor to maintain some control over the inventory and finances of the sale process. In a consignment arrangement, the consignor benefits from increased market reach without directly engaging in the sale process, while the consignee benefits by having the inventory available for sale without the upfront cost associated with purchasing the goods.

5. What term describes transferring information from a journal entry to a ledger account?

A. Posting

B. Filging

C. Recording

D. Summarizing

The term that describes transferring information from a journal entry to a ledger account is "Posting." In the accounting cycle, after transactions are recorded in the journal, they need to be systematically transferred to the appropriate ledger accounts. This process ensures that all financial data is organized and categorized correctly, allowing for accurate financial reporting and analysis. Posting involves taking the debit and credit amounts from the journal entries and updating the respective ledger accounts, which is essential for maintaining a clear and comprehensive record of all financial activities. The other options do not accurately describe this specific process. Recording refers to the initial entry of transactions into the journal, filing is not a term typically used in accounting to describe any specific process related to information transfer, and summarizing refers to the process of presenting information in a summarized format, which is distinct from the act of transferring data between journals and ledgers.

6. What does the term 'equities' refer to in accounting?

A. Rights to the assets

B. Assets owned by the business

C. Liabilities owed by the business

D. Owner's investments in the business

In accounting, the term 'equities' refers specifically to the rights to the assets of an entity, representing the ownership interest in the business. This encompasses the claims of different stakeholders over the assets of the company, including the owners and creditors. When a company has assets, these assets aren't solely owned by the company itself; instead, they are subject to claims from various parties. The concept of equity is integral to the accounting equation: Assets = Liabilities + Equity. This equation illustrates that the total assets of a business are funded by the claims of creditors (liabilities) and the owners (equity). Thus, within this framework, equity reflects the residual interest in the assets of the entity after deducting its liabilities. While other choices refer to different aspects of accounting—such as assets (owned by the business), liabilities (owed by the business), and owners' investments—they do not accurately capture the holistic definition of 'equities' in the context of accounting, which specifically relates to the rights that stakeholders possess in relation to the company's assets.

7. What is the name of a listing that includes customer accounts and the total amount due from all customers?

A. Accounts receivable report

B. Schedule of accounts receivable

C. Customer ledger

D. Accounts summary

The correct term for a listing that includes customer accounts along with the total amount due from all customers is the "Schedule of accounts receivable." This document provides a detailed view of the amounts owed by each customer, thereby allowing businesses to track outstanding invoices and assess overall receivable positions. It organizes customer information systematically, which is crucial for effective cash flow management and collections. This schedule typically includes detailed line items for each account, making it easy to identify which customers have outstanding balances and the total amount expected to be collected. It serves as a vital tool for financial reporting and helps ensure that the company is aware of its receivables status. While options like "Accounts receivable report" and "Customer ledger" may also refer to customer-related financial information, they may not specifically denote the structured format that summarizes total amounts owed by all customers as comprehensively as the schedule does. The term "Accounts summary" is less commonly used in this context and does not convey the same specificity regarding customer accounts and their outstanding amounts.

8. What term refers to a long-term promise to pay a specified amount on a certain date while also paying interest?

A. Equity

B. Bond

C. Note payable

D. Dividend

The term that describes a long-term promise to pay a specified amount on a certain date, along with interest payments, is a bond. Bonds are essentially debt securities issued by corporations, municipalities, or governments to raise capital. When investors purchase bonds, they are lending money to the issuer in exchange for periodic interest payments (called coupon payments) and the return of the bond's face value at maturity. Bonds have specific characteristics, such as a defined maturity date, a known interest rate, and typically a set schedule for interest payments, making them a straightforward way for entities to obtain financing over the long term. Other terms like equity, note payable, and dividend do not capture the same characteristics. Equity represents ownership in a company without a guaranteed return, note payable generally refers to a short-term obligation, and dividends are distributions of earnings to shareholders rather than debt obligations. Thus, the distinction of bonds as long-term debt instruments makes them the correct answer to the question.

9. What value is associated with unredeemed gift cards?

- **A. Premium**
- <u>**B. Breakage**</u>
- **C. Depreciation**
- **D. Amortization**

The value associated with unredeemed gift cards is referred to as breakage. Breakage represents the portion of gift cards that are sold but never redeemed by customers. Businesses benefit from this breakage because they realize revenue when the gift cards are sold, but without the corresponding obligation to provide goods or services when the cards are not redeemed. In accounting, businesses estimate the percentage of gift cards that will not be redeemed based on historical data and trends, and this estimation is used to recognize revenue in their financial statements. It is important for companies to account for breakage accurately, as it can affect revenue reporting and overall financial performance. The other concepts are distinct from breakage. Premium refers to an additional amount paid, typically in the context of insurance or bonds. Depreciation is the systematic allocation of the cost of a tangible asset over its useful life, while amortization is similar but applies to intangible assets. None of these terms relate directly to the value of unredeemed gift cards. Thus, breakage is the precise term in this context.

10. Which accounting form summarizes the earnings, deductions, and net pay of all employees for one pay period?

- <u>**A. Payroll register**</u>
- **B. Employee earnings record**
- **C. Paycheck stub**
- **D. Tax form**

The payroll register is the key accounting form that summarizes the earnings, deductions, and net pay for all employees during a specific pay period. This comprehensive document provides a detailed breakdown of the total wages earned by each employee, along with the various deductions such as taxes, benefits, and other withholdings. By consolidating this information for all employees, the payroll register serves as a vital tool for the accounting department, facilitating payroll processing and ensuring accurate financial reporting. The payroll register's ability to compile data for an entire pay period makes it essential for tracking expenses and preparing financial statements. This register can also help in reconciling payroll expense accounts and ensures compliance with tax obligations. In contrast, the employee earnings record is individualized and tracks a specific employee's earnings and deductions over time, rather than summarizing data for all employees. The paycheck stub is a document provided to individual employees detailing their pay for a particular period, including deductions, but does not summarize for all employees. Tax forms relate to individual or business tax reporting and are not specifically focused on payroll processing summaries for a pay period.