Principal Account Clerk Civil Service Practice Test (Sample)

Study Guide

BY EXAMZIFY

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Questions

1. **What happens to the purchases account when merchandise is bought for cash?**
   - A. Debited
   - B. Credited
   - C. Not Affected
   - D. Transferred

2. **What is the purpose of debiting an expense account?**
   - A. To increase the expense
   - B. To decrease cash
   - C. To increase assets
   - D. To decrease liabilities

3. **What is an endorsement found on the back of a check indicating the new owner of the check called?**
   - A. Special endorsement
   - B. Restrictive endorsement
   - C. Without recourse endorsement
   - D. General endorsement

4. **The total of the accounts payable column in the cash payments journal is posted to which side of the accounts payable account?**
   - A. Debit
   - B. Credit
   - C. Neither side
   - D. Both sides

5. **When delivery expenses increase, what is the correct journal entry?**
   - A. Debit Expenses
   - B. Credit Expenses
   - C. Debit Liabilities
   - D. Credit Assets

6. **What is the classification of Advertising Expense?**
   - A. Asset
   - B. Liability
   - C. Owner's Equity
   - D. Expense

7. **Which account is credited when merchandise is purchased on account?**
   - A. Purchases account
   - B. Accounts payable
   - C. Cash account
   - D. Sales account

8. **If there is an increase in notes payable, how is it recorded?**
   - A. Debit Liabilities
   - B. Credit Assets
   - C. Debit Expenses
   - D. Credit Liabilities

9. **The recording of cash receipts signifies which type of financial transaction?**
   - A. Payments made
   - B. Sales
   - C. Refunds issued
   - D. Goods purchased

10. **What classification is Cash considered in accounting?**
   - A. Liability
   - B. Asset
   - C. Owner's Equity
   - D. Expense

Answers

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

Explanations

1. What happens to the purchases account when merchandise is bought for cash?

A. Debited

B. Credited

C. Not Affected

D. Transferred

When merchandise is bought for cash, the purchases account is debited. This is because debiting the purchases account reflects an increase in inventory or assets, indicating that the company has more merchandise on hand. In accounting, purchases of inventory are recorded as a debit, showing that the company is acquiring more goods for resale. The cash account, on the other hand, is credited in this transaction to reflect the decrease in cash assets since the company paid cash for the merchandise. The purchase process leads to an overall increase in expenses related to sales within the business, cementing the value of the merchandise gained. As a standard accounting practice, the purchases account captures all costs associated with acquiring inventory, reinforcing the idea of maintaining a well-organized financial record. All other choices do not accurately describe the impact on the purchases account when merchandise is acquired.

2. What is the purpose of debiting an expense account?

A. To increase the expense

B. To decrease cash

C. To increase assets

D. To decrease liabilities

Debiting an expense account serves the primary purpose of increasing that expense. In accounting, when an expense is incurred, it is recorded as a debit to the expense account, reflecting the cost incurred during a specific period. This process allows for proper tracking and categorization of expenses, which is crucial for financial reporting and analysis. When an expense account is debited, it not only increases the balance of that account but also impacts the net income by reducing it, as expenses are subtracted from revenues to determine profit. This approach follows the double-entry accounting system, where every financial transaction affects at least two accounts. In this case, an increase in expenses will also typically result in a corresponding credit to another account, such as cash or accounts payable, to show that a payment has been made or that a liability has been incurred. Understanding this principle is essential for managing financial records accurately and ensuring that both the income statement and balance sheet present a truthful picture of an entity's financial health.

3. What is an endorsement found on the back of a check indicating the new owner of the check called?

A. Special endorsement

B. Restrictive endorsement

C. Without recourse endorsement

D. General endorsement

When a check is endorsed on the back to indicate a new owner, this is referred to as a special endorsement. This type of endorsement specifies the individual or entity to whom the check is being transferred, effectively allowing only that designated person or company to cash or deposit the check. It typically includes a signature along with a statement such as "Pay to the order of [new payee's name]." In contrast, restrictive endorsements place limitations on how the check can be handled, often indicating that it can only be deposited into a specific account or for a specific purpose—although they do not transfer ownership. The without recourse endorsement serves to limit liability for the endorser should the check bounce, but it does not transfer ownership separately. General endorsements simply involve signing the name on the back of the check without specifying a new payee, leaving it more open-ended. Understanding these distinctions is crucial for managing and processing checks correctly in accounts and finance.

4. The total of the accounts payable column in the cash payments journal is posted to which side of the accounts payable account?

A. Debit

B. Credit

C. Neither side

D. Both sides

In accounting, the accounts payable account is a liability account, which means it is recorded on the right side or credit side of the ledger. When transactions occur that add to the accounts payable, they are recorded as credits, and when payments are made against those liabilities, they are recorded as debits. The cash payments journal reflects amounts being paid out, which reduces the total amount due to creditors. Therefore, when the total of the accounts payable column in the cash payments journal is posted, it represents a reduction in the liability of the accounts payable. As payments are made to creditors, the accounts payable account is debited to signify that the obligation is being settled. Thus, the correct answer reflects the fact that postings from the cash payments journal to accounts payable result in debiting the account, thereby reducing it, which is a fundamental aspect of managing accounts payable in accounting practices.

5. When delivery expenses increase, what is the correct journal entry?

A. Debit Expenses

B. Credit Expenses

C. Debit Liabilities

D. Credit Assets

When delivery expenses increase, the correct journal entry involves debiting expenses because this action reflects that additional costs have been incurred, therefore increasing the total expense account. In accounting, expenses are recorded with a debit entry; this indicates that there is a rise in the cost associated with operations, such as delivery, which will ultimately be reflected in the financial statements. The increase in delivery expenses will decrease net income since expenses reduce overall profit. This entry impacts the financial health and reporting of the business, signaling to stakeholders that more resources are being devoted to logistics, which may be strategic depending on the context. In contrast, crediting expenses wouldn't accurately represent the increase in costs, since credits in expense accounts typically signify a reduction in expenses. Debiting liabilities or crediting assets would not be appropriate either, as those actions pertain to changes in obligations or resources owned, not the direct recording of an expense increase. Overall, debiting expenses accurately captures the increased costs incurred due to delivery.

6. What is the classification of Advertising Expense?

A. Asset

B. Liability

C. Owner's Equity

D. Expense

Advertising Expense is classified as an Expense because it represents costs incurred for promoting a business's products or services. Expenses are considered outflows of economic benefits that decrease equity in the business. This classification is essential for financial reporting and helps in accurately determining the profitability of a business over a specific period. By categorizing advertising costs as expenses, businesses can track their expenditures related to marketing efforts and measure the effectiveness of these costs against revenues generated. This distinction is important for budgeting, financial analysis, and strategic planning, as advertising is a critical component of business operations aimed at driving sales and growth. The other classifications—asset, liability, and owner's equity—pertain to other financial categories; assets represent resources owned by the business, liabilities are obligations owed to external parties, and owner's equity reflects the residual interest in the assets after liabilities are deducted. Therefore, advertising expenses fall under the "Expense" category as they directly relate to operational costs incurred in the process of generating revenue.

7. Which account is credited when merchandise is purchased on account?

A. Purchases account

B. Accounts payable

C. Cash account

D. Sales account

When merchandise is purchased on account, the transaction involves an increase in what the business owes to its suppliers, which is documented in the Accounts Payable account. This indicates that the business has received inventory without making an immediate cash payment, thereby creating a liability. In this situation, the Accounts Payable account is credited to reflect the obligation to pay the supplier in the future. This entry accurately records the increase in liabilities resulting from the purchase. The other choices do not appropriately represent the accounting treatment for such transactions. For instance, the Purchases account is typically debited to record the inventory increase, while the Cash account would not be affected as no cash is exchanged at the time of purchase. Also, the Sales account is irrelevant here as it is used when goods are sold rather than purchased. Hence, Accounts Payable is the account that correctly captures the transaction when merchandise is acquired on credit.

8. If there is an increase in notes payable, how is it recorded?

A. Debit Liabilities

B. Credit Assets

C. Debit Expenses

D. Credit Liabilities

When there is an increase in notes payable, it is recorded as a credit to liabilities. This is because notes payable represents a liability for the company — a formal agreement to repay borrowed amounts, usually with interest. In accounting, liabilities increase through credit entries. When a company borrows money or takes out a new note payable, it results in a higher obligation to outsiders, thus necessitating an increase in the liability account. As a result, crediting the notes payable account accurately reflects this increase in obligations. Recording it in this way aligns with the fundamental accounting equation: Assets = Liabilities + Equity. When liabilities increase due to more notes payable, it directly reflects an increase in financial obligations while potentially corresponding with new assets, depending on what the borrowed funds are used for.

9. The recording of cash receipts signifies which type of financial transaction?

A. Payments made

B. Sales

C. Refunds issued

D. Goods purchased

The recording of cash receipts is primarily associated with sales transactions. When a business makes a sale, it receives cash or a cash equivalent, which is subsequently recorded as a cash receipt. This entry reflects the increase in cash on hand resulting from the sale of goods or services to customers. Understanding the nature of cash receipts is crucial in accounting, as it directly pertains to revenue generation for a business. Each cash receipt signifies funds being received, which aligns directly with the sales process where goods or services are exchanged for monetary compensation. In contrast, payments made relate to outflows of cash, refunds issued denote the return of funds to customers, and goods purchased signify expenditures by the business, none of which accurately represent the receipt of cash from customers stemming from sales activities.

10. What classification is Cash considered in accounting?

A. Liability

B. Asset

C. Owner's Equity

D. Expense

Cash is classified as an asset in accounting because it is a resource owned by a business that has economic value and can provide future benefits. Assets are anything of value or a resource that can be owned or controlled to produce positive economic value. Cash specifically represents liquid funds that can be readily used for transactions, paying debts, or making purchases. In accounting, assets are generally categorized into current and non-current assets. Cash falls under current assets because it is expected to be consumed or converted into cash within one year. This classification is essential for preparing financial statements, as it contributes to the overall financial health and liquidity of the organization. Understanding the classification of cash as an asset is important for accurately interpreting financial positions and making informed financial decisions. Other classifications, such as liability or owner’s equity, serve different functions within the accounting framework and do not accurately represent cash’s role.