Principal Account Clerk Civil Service Practice Test (Sample)

Study Guide

Everything you need from our exam experts!

Questions

1. **When accounts payable increases, what type of entry is made in the accounting records?**
   - **A. Debit entry**
   - **B. Credit entry**
   - **C. Both debit and credit entries**
   - **D. No entry**

2. **What is the main purpose of a statement of capital?**
   - **A. To determine the total revenues generated**
   - **B. To show the owner's withdrawals and investments**
   - **C. To summarize the overall market performance**
   - **D. To analyze trends in expenses**

3. **What is the effect on the salaries payable account when sales salaries are unpaid?**
   - **A. The account is debited to decrease it**
   - **B. The account is credited to increase it**
   - **C. The account is ignored**
   - **D. The account is transferred to another liability**

4. **When a service is being sold on credit, which account is debited?**
   - **A. Sales Account**
   - **B. Customer Account**
   - **C. Revenue Account**
   - **D. Expense Account**

5. **Which two components make up the body of an income statement?**
   - **A. Revenue and Cash Flows**
   - **B. Assets and Liabilities**
   - **C. Revenue and Expenses**
   - **D. Expenses and Net Income**

6. Where would you record a received credit memo from a creditor?

A. Sales

B. General

C. Cash Payments

D. Purchases

7. What does an operating budget outline?

A. Long-term investment strategies

B. Planned capital expenditures

C. Expected income and expenses for day-to-day operations

D. Sales forecasts for new products

8. What does 'financial leverage' mean?

A. The use of cash reserves to fund operations

B. The use of borrowed funds to increase potential return on investment

C. The practice of investing in stocks only

D. The reduction of operational costs

9. What is a 'prepaid expense' in accounting?

A. A payment made in advance for goods or services to be received in the future

B. A type of delayed revenue

C. A liability on the balance sheet

D. An expense recognized in the current period

10. What journal records cash payment of a promissory note?

A. Cash Receipts

B. General

C. Sales

D. Cash Payments

Answers

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

Explanations

1. When accounts payable increases, what type of entry is made in the accounting records?

A. Debit entry

B. Credit entry

C. Both debit and credit entries

D. No entry

When accounts payable increases, a credit entry is made in the accounting records. Accounts payable represents a liability for a company, reflecting money owed to suppliers or creditors for goods or services received but not yet paid for. In accounting, liabilities are increased with credit entries. This fundamental principle aligns with the double-entry accounting system, where each transaction affects at least two accounts and maintains the accounting equation (Assets = Liabilities + Equity). Therefore, when a company incurs additional obligations, such as receiving goods on credit, the accounts payable account is credited to represent that increase in liability. In this context, the other options do not appropriately represent the correct accounting treatment for an increase in accounts payable. A debit entry would imply a decrease in liabilities, which does not accurately reflect the increase in accounts payable. A combination of both debit and credit entries may apply to other transactions, such as a sale or purchase, but not specifically for the sole increase in accounts payable. Lastly, indicating that no entry is needed overlooks the necessity of recording the liability when it occurs.

2. What is the main purpose of a statement of capital?

A. To determine the total revenues generated

B. To show the owner's withdrawals and investments

C. To summarize the overall market performance

D. To analyze trends in expenses

The main purpose of a statement of capital is to show the owner's withdrawals and investments in a business. This financial statement provides a detailed breakdown of how much capital the owner has contributed to the business and how much has been taken out over a specific period. It reflects changes in the owner's equity, which is crucial for understanding the financial health of the business from the owner's perspective. By documenting the investments made and withdrawals taken by the owner, this statement helps track how the contributions and distributions affect the overall capitalization of the business. This is particularly important for sole proprietorships and partnerships, as it directly relates to the owners' equity stake in the business. The focus on owner activity regarding capital allows for transparency in how capital is managed, which is critical for financial accountability and planning. The other options focus on different financial aspects. Determining total revenues, summarizing market performance, and analyzing trends in expenses do not relate specifically to the owner's equity changes, making them less relevant in the context of the statement of capital.

3. What is the effect on the salaries payable account when sales salaries are unpaid?

A. The account is debited to decrease it

B. The account is credited to increase it

C. The account is ignored

D. The account is transferred to another liability

When sales salaries are unpaid, the salaries payable account is credited to increase it. This is because the salaries payable account is a liability account that reflects amounts owed to employees for services rendered but not yet paid. When salaries are incurred but not paid, it represents an obligation for the company to pay its employees in the future. By crediting the salaries payable account, the company acknowledges the increase in its liabilities, as there is now a greater amount owed. This is consistent with the accounting equation, where liabilities increase when a company incurs expenses without immediate payment.

4. When a service is being sold on credit, which account is debited?

A. Sales Account

B. Customer Account

C. Revenue Account

D. Expense Account

When a service is sold on credit, the customer account is debited to reflect the amount owed by the customer for the service provided. This entry increases the accounts receivable balance, which is an asset on the balance sheet, because it represents money that is expected to be received in the future from customers who have not yet paid for the services they have received. Debiting the customer account recognizes that the company has rendered a service and is now awaiting payment, thus actively recording the transaction in the financial records. This process appropriately aligns with the principles of accrual accounting where revenue is recognized when it is earned, regardless of when cash is received. In contrast, other accounts listed would not be debited in this situation. For instance, the sales account reflects total sales and would typically be credited when a sale is made. The revenue account captures income from services but is not directly debited when transactions occur on credit. Lastly, the expense account reflects costs incurred by the business and would not be affected by the act of selling a service on credit.

5. Which two components make up the body of an income statement?

- **A. Revenue and Cash Flows**
- **B. Assets and Liabilities**
- **C. Revenue and Expenses**
- **D. Expenses and Net Income**

The body of an income statement consists of revenue and expenses. Revenue represents the total income generated from business activities, such as sales of goods or services, before any costs or expenses are deducted. This figure is crucial as it indicates the company’s ability to produce sales and generate cash flow. Expenses reflect the costs incurred in the process of generating revenue. These can include operating costs, such as wages, rent, utilities, and other related expenses necessary to maintain business operations. The relationship between revenue and expenses ultimately determines the net income or loss for the period, which is the bottom line of the income statement. Understanding the components of the income statement is essential, as it provides valuable insights into a company's financial performance over a specific period by showing how much profit or loss is generated after accounting for all expenses incurred in the process of earning revenue. While other financial statements may include terms like cash flows, assets, and liabilities, these do not pertain directly to the income statement's primary focus.

6. Where would you record a received credit memo from a creditor?

- **A. Sales**
- **B. General**
- **C. Cash Payments**
- **D. Purchases**

Recording a received credit memo from a creditor typically occurs in the general journal. This is because a credit memo represents an adjustment to previous transactions, such as a returned item or an overpayment, and it affects accounts that may not fall into the typical categories of sales or purchases specifically. When you receive a credit memo, it usually indicates a reduction in the amount you owe to a supplier or vendor, suggesting a decrease in liabilities. This can be recorded in the general journal as it gives a comprehensive view of all financial transactions, including adjustments and corrections. Utilizing the general journal allows for accurate tracking of these adjustments in a consolidated manner, separate from the direct accounts for sales or purchases, which are used for recording revenue and inventory purchases respectively. Recording in the general category provides better clarity and helps in maintaining an organized financial record.

7. What does an operating budget outline?

A. Long-term investment strategies

B. Planned capital expenditures

C. Expected income and expenses for day-to-day operations

D. Sales forecasts for new products

An operating budget primarily focuses on the anticipated income and expenses associated with the day-to-day operations of an organization. This budget serves as a financial plan that details how much money will be generated and spent over a specific period, typically a fiscal year. By outlining expected revenues from various sources and the costs necessary for ongoing operations—such as salaries, rent, utilities, and supplies—it provides a clear framework for managing an organization's financial resources effectively. The operating budget is essential for planning and monitoring financial performance, allowing managers to make informed decisions. It essentially helps organizations ensure they have enough resources to cover their operational costs while aiming for profitability. Other options may focus on different aspects of financial planning. Long-term investment strategies relate to broader financial goals and asset management; planned capital expenditures involve investments in long-term assets like buildings or equipment, which are typically not included in an operating budget; and sales forecasts for new products pertain to specific revenue projections rather than the comprehensive overview of operational finances that the operating budget provides.

8. What does 'financial leverage' mean?

A. The use of cash reserves to fund operations

B. The use of borrowed funds to increase potential return on investment

C. The practice of investing in stocks only

D. The reduction of operational costs

Financial leverage refers to the strategy of using borrowed funds to amplify potential returns on an investment. When an organization or an individual takes on debt, they can invest a larger amount of capital than they would be able to with just their own funds. This practice can significantly increase the potential gains if the investment performs well, as the returns are based on the total investment made, including both borrowed funds and equity. For example, if a company takes out a loan to purchase additional assets or expand its operations, the returns generated from these investments can exceed the interest expenses associated with the borrowed capital. However, it's important to note that while financial leverage can enhance returns, it also increases the financial risk associated with the investment, as losses can also be amplified. The other options fail to capture the essence of financial leverage. Using cash reserves pertains to self-funding operations and does not involve debt. Investing in stocks only does not imply leveraging borrowed funds, as it can be done with cash alone. Finally, reducing operational costs relates to enhancing efficiency rather than leveraging borrowed funds to increase potential returns.

9. What is a 'prepaid expense' in accounting?

- **A. A payment made in advance for goods or services to be received in the future**
- **B. A type of delayed revenue**
- **C. A liability on the balance sheet**
- **D. An expense recognized in the current period**

A prepaid expense is defined as a payment made in advance for goods or services that will be received in the future. This means that the payment is recorded as an asset on the balance sheet at the time of the payment because the benefit of the expense has not yet been utilized. When the goods or services are consumed or received, the prepaid expense is then recognized as an actual expense on the income statement during the period in which the service or good is used. This understanding is crucial in accounting because it helps businesses manage their financials accurately, ensuring that expenses are matched with the revenues they generate in the appropriate periods. Recognizing an expense in the correct period aligns with the accrual basis of accounting, which focuses on when economic events occur rather than when cash transactions happen. The other options either mischaracterize prepaid expenses or represent different accounting concepts. Understanding the classification of prepaid expenses is essential for correctly managing financial statements and cash flow in a business.

10. What journal records cash payment of a promissory note?

- **A. Cash Receipts**
- **B. General**
- **C. Sales**
- **D. Cash Payments**

The journal that records cash payments of a promissory note is the Cash Payments journal. This journal is specifically designed to track all transactions involving cash outflows from the business. When a business pays off a promissory note, it involves an outflow of cash, so this transaction is recorded in the Cash Payments journal to accurately reflect the decrease in cash and the reduction of liabilities related to the note. This is particularly critical for maintaining clear financial records, as it allows for easy tracking of how much cash has been paid out in relation to liabilities such as loans or promissory notes. By using the Cash Payments journal, organizations ensure they have a comprehensive view of their cash payments, which is essential for cash flow management and financial reporting.