Name: _____ **CMU ID:** _____

ACC 250 — Exam 1 Example (Answer Key)

Fall 2026 Chapters 0–3 Session example: the questions are Exam 1's own.

Part A: Multiple choice (Q1–Q7)

1. A corporation cannot pay $500,000 that it owes to its creditors, and it has no assets left. **What happens to its shareholders?**

A. Each shareholder must pay the remaining debt out of personal assets.

B. The debt disappears, because a corporation is a separate legal entity.

C. Shareholders must pay the remaining debt in proportion to the number of shares they own.

D. ✓ Shareholders can lose what they invested, but their personal assets are protected.

E. The shareholders' personal assets can be taken, because a corporation and its owners are the same entity.

Answer D. A corporation is a separate legal entity, so its liabilities are not its owners' liabilities, and a shareholder's loss is limited to the amount invested. It does not make the debt go away. *(Review Ch1 Q1; Exam 1 Q1)*

2. A company reports total assets of $180,000 and total liabilities of $65,000. **How much is its shareholders' equity?**

A. $65,000

B. ✓ $115,000

C. $180,000

D. $245,000

E. Cannot be determined without more information.

Answer B. Equity is the residual: $180,000 - $65,000 = $115,000. *(Review Ch1 Q5; Exam 1 Q3)*

3. Rivertown Print Shop took the five actions below during June. **Which one of them requires no journal entry?**

A. ✓ One of the shop's shareholders sold 500 shares to another investor for $12,000.

B. The shop received $1,200 of paper and agreed to pay the supplier in thirty days.

C. The shop paid $9,000 to a supplier for paper it had received last month.

D. The shop issued new shares to an investor for $20,000 of cash.

E. The shop borrowed $15,000 from a bank, signing a note due in two years.

Answer A. A transaction has to move the company's own accounting equation. A sale of shares between two investors changes none of the shop's accounts. *(Review Ch2 Q1; Exam 1 Q4)*

4. In the accounting cycle, the correct order of the first four steps is

A. Record journal entries → Analyze transactions → Prepare trial balance → Summarize T-accounts

B. ✓ Analyze transactions → Record journal entries → Summarize T-accounts → Prepare trial balance

C. Analyze transactions → Summarize T-accounts → Record journal entries → Prepare trial balance

D. Record journal entries → Summarize T-accounts → Analyze transactions → Prepare trial balance

Answer B. Analyze, journalize, post to T-accounts, then list the balances in a trial balance. *(PracticeQ Ch2 Q4; Exam 1 Q5)*

5. Rivertown Print Shop prepares a trial balance, and its total debits and its total credits both come to $88,000. **What can the shop conclude?**

A. Every journal entry must have been recorded correctly.

B. The shop's total assets are $88,000.

C. ✓ The entries are likely correct, but an error can still be hidden in them.

D. The shop's net income for the period is $88,000.

E. An amount posted to the wrong account would have been caught by this check.

Answer C. Equal totals show only that each entry had equal debits and credits. A wrong-account posting keeps them equal. *(Review Ch2 Q2; Exam 1 Q6)*

6. During March, Lakeside Florist delivered $18,000 of flowers and collected the cash, delivered $7,000 of flowers to a hotel that will pay in April, and received $2,000 from a bride for a wedding it will decorate in May. **How much revenue should it recognize in March?**

A. $18,000

B. $20,000

C. ✓ $25,000

D. $27,000

E. Cannot be determined until the cash is collected.

Answer C. Revenue follows delivery, whatever the cash does: $18,000 + $7,000 = $25,000. *(Review Ch3 Q7; Exam 1 Q11)*

7. Lakeside Florist reports the five items below for March. **Which one of them is an expense of March?**

A. It paid $3,000 in March for a delivery van it will use for the next four years.

B. It paid $1,200 in March for insurance covering April, May and June.

C. It received $2,000 in March for flowers it will deliver in May.

D. It paid $4,000 in March on an account payable for supplies it used in February.

E. ✓ Its employees worked in March and will be paid on April 5.

Answer E. An expense belongs to the period the resource is used up, not the period it is paid. *(Review Ch3 Q8; Exam 1 Q12)*

Part B: Numeric (Q8–Q9)

8. At December 31, a company reports current assets of $38,400 and current liabilities of $15,000. **Calculate its current ratio, rounded to the nearest whole number.**

Current ratio: _____

Answer 003. $38,400 / $15,000 = 2.56, rounded to 3, marked as 003. *(Exam1-2026S Q26, new figures; Exam 1 Q51)*

9. A company began the year with retained earnings of $120,000. During the year it reported sales revenue of $640,000 and service revenue of $85,000. Its expenses were salaries $410,000, rent $96,000, utilities $38,000 and income tax $45,000. It paid dividends of $50,000. **What is its retained earnings at the end of the year?**

Ending retained earnings: $ _____ ,000

Answer 206. Revenues $725,000 - expenses $589,000 = net income $136,000. $120,000 + $136,000 - $50,000 = $206,000, marked as 206. *(HW Ch1 Sets 4-5; Review Ch1 Q8 shape; Exam 1 Q54)*

Set 1: Journal entries: Spotlighter (Q1–Q10)

Spotlighter, Incorporated recorded the transactions below in January. Write the number of the account that belongs on each numbered line. An account may be used more than once, or not at all. Amounts and sides are printed.

Accounts

1 Accounts Payable	2 Accounts Receivable	3 Cash	4 Common Stock
5 Equipment	6 Notes Payable	7 Notes Receivable	8 Retained Earnings
9 Supplies	10 Supplies Expense		

Transaction a. Borrowed $3,940 from a local bank on a note due in six months.

3. Cash	3,940	
6. Notes Payable		3,940

Transaction b. Received $4,630 cash from investors and issued common stock to them.

3. Cash	4,630	
4. Common Stock		4,630

Transaction c. Purchased $1,000 in equipment, paying $200 cash and promising the rest on a note due in one year.

5. Equipment	1,000	
Cash		200
6. Notes Payable		800

Transaction d. Paid $300 cash for supplies.

9. Supplies	300	
3. Cash		300

Transaction e. Bought and received $700 of supplies on account.

9. Supplies	700	
1. Accounts Payable		700

Answers: Q1 = 3, Q2 = 6, Q3 = 3, Q4 = 4, Q5 = 5, Q6 = 6, Q7 = 9, Q8 = 3, Q9 = 9, Q10 = 1. *(HW Ch2 Set 8)*

Set 4: Business activities (Q1–Q3)

Classify each activity as Operating, Financing or Investing.

1. The company buys a delivery truck for $36,000 cash.

A. Operating
B. Financing
C. ✓ Investing
D. None of the above

C. A long-term asset is bought: investing.

2. The company issues 2,000 shares of common stock to investors for $80,000 cash.

A. Operating
B. ✓ Financing
C. Investing
D. None of the above

B. Raising money from owners: financing.

3. The company pays $4,200 in salaries to employees.

A. ✓ Operating
B. Financing
C. Investing
D. None of the above

A. A day-to-day cost of running the business: operating.

(Exam1-2026S Q1, reworded)

Set 5: Account types (Q1–Q3)

Classify each account as an Asset, a Liability, Stockholders' Equity, a Revenue or an Expense.

Choices: **A.** Asset **B.** Liability **C.** Stockholders' Equity **D.** Revenue **E.** Expense

	Account	Answer
1.	Prepaid Rent	**A**
2.	Income Tax Payable	**B**
3.	Utilities Expense	**E**

1. A. Rent paid ahead is a future benefit the company controls: an asset.

2. B. An amount the company owes: a liability.

3. E. A cost of operating the business: an expense.

(HW Ch1 Set 1 and Exam1-2026S Q2 accounts)

Set 6: Linked statements (Q1–Q3)

The three statements below are linked. Some labels and amounts are hidden. **Find the three amounts marked (1), (2) and (3)**, and mark each on the card as three digits (80 is marked 080).

Lemonade Stand, Inc.
Income Statement
For the Year Ended December 31, 2025

[Revenues]	$540
Salaries Expense	[(1) 210]
Supplies Expense	$90
Net Income	[240]

Lemonade Stand, Inc.
Statement of Retained Earnings
For the Year Ended December 31, 2025

[Beg. Retained Earnings]	$0
Net Income	[240]
[Dividends]	($60)
End. Retained Earnings	$180

Lemonade Stand, Inc.
Balance Sheet
As of December 31, 2025

Assets	
Cash	$350
Equipment	$260
Total Assets	[610]
Liabilities	
Accounts Payable	[(2) 80]
Salaries Payable	$0
Stockholders' Equity	
Common Stock	$350
Retained Earnings	[180]
Total Liabilities & Equity	[(3) 610]

Answers: (1) = 210; (2) = 80; (3) = 610.

Why

- (1) Net income is not printed, so it comes back from the statement of retained earnings: $180 - $0 + $60 = $240. Then $540 - $90 - $240 = $210.
- (2) Total assets are $350 + $260 = $610, which total liabilities and equity must equal. Retained Earnings on the balance sheet is the ending $180 from the statement of retained earnings, so Accounts Payable = $610 - $0 - $350 - $180 = $80.
- (3) Total Liabilities & Equity equals Total Assets: $350 + $260 = $610.

(Drawing: Teaching/0-Notes/ACC250/FS-images-with-blanks, fs-blanks.tex case 2; layout of Ch1 deck p.41. Figures new. The build proves each asked amount can be found with every other hidden item unknown.)