

TECEP® Test Description for ACC-101-TE

PRINCIPLES OF FINANCIAL ACCOUNTING

This exam evaluates students' knowledge and ability to record business transactions, summarize these transactions, and prepare, interpret, and use financial statements. This exam covers the accounting cycle, merchandising concerns, and financial assets. It also assesses students' knowledge of plant assets, liabilities, and stockholders' equity. (3 credits)

- **Test format:** 100 multiple choice questions (1 point each)
 - **Passing score:** 60%. Your grade will be reported as CR (credit) or NC (no credit).
 - **Time limit:** 2 hours
You may use a financial, scientific, or graphing calculator while testing. You may NOT use a calculator that is on your cell phone, PDA, or any similar device.
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OUTCOMES ASSESSED ON THE TEST

- Describe the need for accounting
 - Identify users of financial accounting information
 - Prepare and interpret the components of a transaction, the related debit/credit theory, and how the general journal and general ledger relate to the accounting process and to financial statements
 - Prepare basic financial statements: income statement, statement of owners' equity, balance sheet
 - Demonstrate the steps and related transactions in the accounting cycle, including the adjusting process and the closing process
 - Prepare the accounting and related transactions for: merchandising businesses, various inventory accounting methods, purchase and depreciation/amortization of plant assets and intangible assets, long-term liabilities, and stockholders' equity accounts
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TOPICS ON THE TEST AND THEIR APPROXIMATE DISTRIBUTION

The table below indicates the main topics covered by this exam and the approximate percentage of the exam devoted to each main topic. Under the main topic heading is a list of related—but more specific—topics. It is important to review these topics to determine how much prior knowledge you have and/or how much additional study is necessary.

Basic Financial Statements (15%)	
Topic	
	Financial accounting as the language of business
	Internal and external elements used to create integrity in reported financial information
	How business transactions affect the accounting equation (Assets = Liabilities + Owner's Equity)
	Nature and purpose of financial statements (income statements, balance sheets, statement of cash flows)
	Accounting principles required to understand financial statements and relationships among financial statements
The Accounting Cycle (30%)	
Topic	
	Theory of debits and credits
	Accounting cycle from journal entry to financial statements
	Revenue realization; matching and materiality principles
	Adjusting and closing entries
	Characteristics of sole proprietorships, partnerships, corporations
	Journal entries for partnerships-investments; withdrawals; division of net income



**Accounting for Merchandising Activities, Financial Assets, Inventories, Cost of Goods Sold
(15%)**

Topic

Accounting for purchases/sales/end-of-year adjustments using perpetual inventory system and periodic inventory system

Using perpetual inventory system, determining cost of goods sold using average cost, FIFO, LIFO

Physical inventory; effects of inventory valuations on financial statements; evaluating (rate of inventory turnover) effectiveness of inventory management

Estimating ending inventory and cost of goods sold using gross profit and retail methods

Subsidiary ledgers and special journals

Financial assets and their valuation on balance sheets; evaluating performance of merchandising companies

Objectives of cash management; internal controls over cash; preparing bank reconciliations

Accounting for uncollectible receivables using allowance method and direct write-off method; evaluating liquidity of accounts receivables

Computing and accounting for notes receivable and interest revenue

Plants and Intangible Assets; Liabilities (15%)

Topic

Capital expenditures; revenue expenditures

Calculating cost of plant assets; depreciation (straight-line, units of production, declining-balance), journalizing acquisition of assets; depreciation; disposal

Intangible assets (amortization); natural resources (depletion)

Current and long-term liabilities

Accounting for notes payable

Amortization tables for payables

Accounting for payroll and related costs

Present value as it relates to bond prices



Tax advantages of debt financing
Accounting for bonds issued at face value, at a discount, at a premium
Capital leases; operating leases
Stockholders' Equity; Income and Changes in Retained Earnings (25%)
Topic
Publicly owned and closely held corporations; advantages/disadvantages of organizing a business as a corporation; stockholders rights; roles of corporate directors and officers
Accounting for common stock and preferred stock including Treasury Stock
Differences of par value, book value, market value pertaining to common and preferred stock
Purpose of and effects of stock splits
Preparing equity section of corporate balance sheets
Presenting discontinued operations, extraordinary items, accounting changes in income statements
Computing/accounting for basic earnings per share, small stock dividends, large stock dividends
Prior period adjustments
Comprehensive income and net income
Retained earnings statements

STUDY RESOURCES

Below is a list of recommended study materials to help prepare you for your exam. Many texts and free online resources can help you review, including the text and online course below. Whatever resources you select, compare them to the topic outline to make sure everything is covered.

Title
<i>Financial and Managerial Accounting: The Basis for Business Decisions.</i> Jan R. Williams et al. Current edition. New York, NY: McGraw-Hill/Irwin.
Introduction to Financial Accounting [Saylor Course]. Washington, D.C.: Saylor Academy.



SAMPLE QUESTIONS

The questions below are designed to help you study for your TECEP. Answering these questions does not guarantee a passing score on your exam.

Please note that the questions below **will not** appear on your exam.

1. Each year the accountant for Northeast Real Estate Company adjusts the recorded value of each asset to its market value. Using these market value figures on the balance sheet violates the
 - a. accounting equation
 - b. stable-dollar assumption
 - c. business entity concept
 - d. cost principle
2. The entry to allocate net income among partners requires a
 - a. debit to each partner's capital account
 - b. credit to each partner's capital account
 - c. credit to income summary
 - d. credit to retained earnings
3. On December 31, 20XX, the accounting records of Sky Corporation contain the items below. What is the amount of Cash owned by Sky on December 31, 20XX?

Accounts Payable	\$16,000	Accounts Receivable	\$40,000
Land	240,000	Cash	?
Capital Stock	260,000	Equipment	120,000
Building	180,000	Notes Payable	190,000
Retained Earnings	160,000		

- a. \$46,000
 - b. \$86,000
 - c. \$94,000
 - d. \$686,000
4. Which of the following is a characteristic of a corporation?
 - a. Declaration of a dividend by the stockholders
 - b. Appointment of officers by the stockholders
 - c. Transferability of shares of stock
 - d. Unlimited liability



5. Which of the following statements best describes the concept of adequate disclosure?
- The accounting department of a business must inform management of the accounting practices used to prepare the financial statements.
 - The company must inform users of any significant facts necessary for proper interpretation of the financial statements, including events occurring after the financial statement date.
 - The independent auditors must disclose in the financial statements any and all errors detected in the company's accounting records.
 - The financial statements must include a comprehensive list of each transaction that occurred during the year.
6. What accounting principle governs the timing of revenue recognition?
- Realization principle
 - Materiality principle
 - Matching principle
 - Depreciation principle
7. What is the correct order of the accounts in the adjusted trial balance?
- Revenues, expenses, assets, liabilities, owner's equity
 - Liabilities, assets, revenues, owner's equity, expenses
 - Assets, liabilities, owner's equity, revenues, expenses
 - Expenses, liabilities, revenues, assets, owner's equity
8. In preparing a bank reconciliation, a service charge shown on the bank statement should be
- added to the balance per the bank statement
 - deducted from the balance per the bank statement
 - added to the balance per the depositor's records
 - deducted from the balance per the depositor's records
9. Which of the following credit terms is most advantageous to the buyer?
- 1/10, n/30
 - 5/10, n/60
 - 2/10, n/30
 - 5/10, n/20



10. A purchasing agent wants to know the dollar amount of inventory purchased on account during the year from a particular supplier. Where is the easiest place to find this information?
- Inventory subsidiary ledger
 - Accounts payable controlling account
 - Inventory controlling account
 - Accounts payable subsidiary ledger
11. A company uses a perpetual inventory system. At year-end the Inventory account has a balance of \$275,000, but a complete year-end physical inventory shows goods on hand costing \$269,000. What should the company do?
- Reduce its cost of goods sold by \$6,000
 - Record a \$6,000 current liability
 - Reduce the balance in its Inventory controlling account and inventory subsidiary ledger by \$6,000
 - Reduce the balance in its Inventory controlling account and record a current liability, both in the amount of \$6,000
12. Which statement correctly describes the tax advantage of raising money by issuing bonds instead of common stock?
- The amount paid by the corporation to redeem bonds at maturity date is deductible in computing income subject to corporate income tax.
 - Interest payments are deductible in determining income subject to corporate income tax; dividends are not deductible.
 - A corporation must pay tax on the sales price of stock issued, but is not taxed on the amount received when bonds are issued.
 - Both interest and dividends paid are deductible in computing taxable income, but since interest must be paid annually, the corporation usually receives a larger tax deduction over the life of the bonds payable.
13. Sally enters into a partnership by contributing the following: Cash \$15,000; Accounts Receivable \$4,500; machinery that cost \$3,000 and has a fair market value of \$2,125; and Accounts Payable of \$1,200. What amount will be recorded in her capital account?
- \$20,425
 - \$21,300
 - \$21,625
 - \$22,500



14. A store that sells expensive custom-made jewelry is most likely to determine its cost of goods sold using
- LIFO
 - FIFO
 - Specific identification
 - Average cost
15. The collection of accounts receivable is recorded by a
- Credit to Cash and a credit to Accounts Receivable
 - Debit to Cash and a debit to Accounts Receivable
 - Credit to Cash and a debit to Accounts Receivable
 - Debit to Cash and a credit to Accounts Receivable
16. On November 1, Delphi Corporation sold merchandise in return for a 7%, 90-day note receivable in the amount of \$30,000. What does the proper adjusting entry at December 31 (the end of Delphi's fiscal year) include?
- Credit to Interest Revenue of \$350
 - Credit to Notes Receivable of \$525
 - Debit to Cash of \$350
 - Debit to Interest Receivable of \$175
17. At the beginning of the current year, Wilson Corporation had 200,000 shares of \$1 par common stock outstanding and had retained earnings of \$4,800,000. During the year, the company earned \$1,675,000 and paid a year-end cash dividend of \$3 per share. What was Wilson's retained earnings at the end of the year?
- \$4,800,000
 - \$5,875,000
 - \$6,275,000
 - \$6,475,000
18. When stock that was issued by a corporation is later reacquired it is classified as
- Treasury stock
 - non-participating preferred stock
 - restricted stock
 - issued shares



19. A bond that sells at 103 is selling at

- a. maturity value and yields a 3% interest rate
- b. a discount
- c. face value
- d. a premium

20. A company had 130,000 shares of common stock outstanding on January 1 and sold 30,000 additional shares on March 30. Net income for the year was \$495,625. What are earnings per share?

- a. \$3.10
 - b. \$3.25
 - c. \$4.58
 - d. \$4.96
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ANSWERS TO SAMPLE QUESTIONS

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|--------|---------|---------|
| 1. (d) | 8. (d) | 15. (d) |
| 2. (b) | 9. (d) | 16. (a) |
| 3. (a) | 10. (d) | 17. (b) |
| 4. (c) | 11. (c) | 18. (a) |
| 5. (b) | 12. (b) | 19. (d) |
| 6. (a) | 13. (a) | 20. (b) |
| 7. (c) | 14. (c) | |

