Practice Agribusiness Final Exam C. Kohn, Waterford WI

Name: Hour Date: Score:

1. Why are accounting and financial record keeping important to a business?
   1. Many business fail due to the owner’s lack of understanding of their business’s financial situation.
   2. Accounting and record keeping help a business owner to understand if their business is succeeding or failing and why.
   3. The purpose of any financial record-keeping system is to provide a picture of the well-being of a business.
   4. In addition to determining the well-being of a business, financial record keeping is also necessary for income taxes, loan applications, and to sell a business for a profit.
   5. All of the above.
2. What is the difference between accounting and book-keeping?
   1. There is no difference; these terms mean the same thing.
   2. *Accounting* is the design, preparation, and interpretation of the recordkeeping system that a business uses. *Book-keeping* is the actual input of financial information into this recordkeeping system.
   3. *Book-keeping* is the design, preparation, and interpretation of the recordkeeping system that a business uses. *Accounting* is the actual input of financial information into this recordkeeping system.
   4. *Accounting* is the use of balance sheets. *Book-keeping* is the use of profit/loss statements.
   5. *Book-keeping* is the use of balance sheets. *Accounting* is the use of profit/loss statements.
3. What is the difference between a balance sheet and a profit-loss statement?
   1. A balance sheet compares assets vs. liabilities, while a profit/loss statement compares income and loss.
   2. A profit/loss statement compares assets vs. liabilities, while a balance sheet compares income and loss.
   3. A balance sheet is used for accounting while a profit/loss statement is used for book-keeping.
   4. A profit/loss statement is used for accounting while a balance sheet is used for book-keeping.
4. This is what a business owns.
   1. Liability b. Asset c. Accounts Receivable d. Accounts Payable e. Equity
5. This is what a business owes.
   1. Liability b. Asset c. Accounts Receivable d. Accounts Payable e. Equity
6. This is what a company hopes to eventually be able to pay.
   1. Liability b. Asset c. Accounts Receivable d. Accounts Payable e. Equity
7. This is what a company hopes to eventually receive.
   1. Liability b. Asset c. Accounts Receivable d. Accounts Payable e. Equity
8. This is the value of the ownership of a business after all costs have been paid.
   1. Liability b. Asset c. Accounts Receivable d. Accounts Payable e. Equity
9. What is the difference between a current asset and a fixed asset?
   1. A current asset is what a business owns; a fixed asset is what a business *owes*.
   2. A current asset is what a business owes; a fixed asset is what a business *owns*.
   3. A current asset is a permanent asset; a fixed asset can be converted into cash within a year.
   4. A current asset can be converted into cash within a year. A fixed asset is permanent.
   5. None of the above.
10. This is a current liability.
    1. Whatever is left after debts are subtracted from assets.
    2. What a business must completely pay within one year. These include accounts payable and taxes.
    3. What a business must pay off over time, such as a mortgage or a loan.
11. This is a long-term liability.
    1. Whatever is left after debts are subtracted from assets.
    2. What a business must completely pay within one year. These include accounts payable and taxes.
    3. What a business must pay off over time, such as a mortgage or a loan.
12. This is owner’s equity.
    1. Whatever is left after debts are subtracted from assets.
    2. What a business must completely pay within one year. These include accounts payable and taxes.
    3. What a business must pay off over time, such as a mortgage or a loan.
13. If a business’s books are balanced, this means that…
    1. The total value of all assets are equal to the total value of all liabilities.
    2. Assets = Debts + Equity.
    3. Equity = Assets – Debts.
    4. All of the above.
    5. None of the above.
14. This any money that a business will receive.
    1. Net Profit b. Income c. Expenses d. Loss e. Profit
15. This is when expenses exceed income.
    1. Net Profit b. Income c. Expenses d. Loss e. Profit
16. This is the value after expenses have been subtracted from income.
    1. Net Profit b. Income c. Expenses d. Loss e. Profit
17. This is any money a business has to pay.
    1. Net Profit b. Income c. Expenses d. Loss e. Profit
18. This is when income exceeds expenses.
    1. Net Profit b. Income c. Expenses d. Loss e. Profit
19. How does how service income is calculated differ from how sales income is calculated.
    1. It does not; both involve income after expenses.
    2. Profit from **sale income** can be determined simply by deducting the expenses of making the income from the income itself.
    3. Profit from **sales income** is determined by subtracting both the cost of producing the product as well as the cost of the materials of the product from the income of that product.
    4. Profit from **service income** is determined by subtracting both the cost of producing the product as well as the cost of the materials of the product from the income of that product.
    5. None of the above.
20. What is the difference between the cash method of accounting and the accrual method of accounting?
    1. The cash method of accounting counts income and expenses when they are due to the business.
    2. The accrual method of accounting counts income and expenses when they are due to the business.
    3. The cash method of accounting uses a fiscal calendar.
    4. The accrual method of accounting uses a fiscal calendar.
    5. None of the above.
21. Should a small business use a fiscal year or a calendar year?
    1. A fiscal year is better to use because it begins in Jan and ends in Dec.
    2. A calendar year is better to use because it begins on April 15 and follows the tax season.
    3. A fiscal year should only be used if there is a valid business purpose (such as a tourist season); otherwise a calendar year should be used.
    4. All of the above.
22. What is the purpose of a chart of accounts?
    1. It compares income vs. assets to determine the health of a business.
    2. It lists all the categories of financial transactions which you need to track.
    3. It compares expenses vs. liabilities to determine the health of a business.
23. How is a chart of accounts organized?
    1. The assets of a business are split between current and fixed.
    2. All types of income and expenses are listed alphabetically to make it easier to find them.
    3. Each category is given a 2- or 3-digit code to track all types of income and all types of expenses.
    4. All of the above.
    5. None of the above.
24. This is any merchandise or materials that are held for sale by a business.
    1. Current Asset Account Record b. Inventory c. Cost of Goods Sold
25. This is the value of the inventory used specifically for items that were sold within on year.
    1. Current Asset Account Record b. Inventory c. Cost of Goods Sold
26. This is the form used to track all assets except inventory.
    1. Current Asset Account Record b. Inventory c. Cost of Goods Sold
27. This kind of tax involves the Gross Estate and includes cash, real estate, insurance, trusts, and other items of personal value that are transferred after a death.
    1. Tax on Purchases b. Tax on Property c. Tax on Wealth d. Tax on Earnings
28. This includes sales tax as well as specific goods on items like cigarettes or alcohol.
    1. Tax on Purchases b. Tax on Property c. Tax on Wealth d. Tax on Earnings
29. This includes income tax and social security tax.
    1. Tax on Purchases b. Tax on Property c. Tax on Wealth d. Tax on Earnings
30. This is what you’d pay if you own a home.
    1. Tax on Purchases b. Tax on Property c. Tax on Wealth d. Tax on Earnings
31. This is what makes up the majority of the federal government’s funding.
    1. Tax on Purchases b. Tax on Property c. Tax on Wealth d. Tax on Earnings
32. This equals 6.2% of every paycheck (or 12.4% if you’re self-employed).
    1. Tax on Purchases b. Tax on Property c. Tax on Wealth d. Tax on Earnings
33. This is paid for by every worker’s paycheck and by every employer.
    1. Social Security b. Tax Evasion c. Tax Avoidance d. Estate Tax
34. This is a legal method to reduce your tax obligation.
    1. Social Security b. Tax Evasion c. Tax Avoidance d. Estate Tax
35. This is what would be paid out of the value of your land and possessions if you died when it is transferred to your inheritors.
    1. Social Security b. Tax Evasion c. Tax Avoidance d. Estate Tax
36. This is illegally failing to pay all taxes you owe.
    1. Social Security b. Tax Evasion c. Tax Avoidance d. Estate Tax
37. This is the payments you would receive if you retire, are disabled, or are a widow/widower.
    1. Social Security b. Tax Evasion c. Tax Avoidance d. Estate Tax
38. This is the sum of your earned income, investment income, and passive income before any adjustments, exemptions, or deductions.
    1. Adjusted Gross Income (AGI) b. Gross Income c. Taxable Income d. Tax Bracket
39. This is what determines the amount you pay as well as what your tax bracket will be.
    1. Adjusted Gross Income (AGI) b. Gross Income c. Taxable Income d. Tax Bracket
40. This is the rate at which the money you have earned is taxed.
    1. Adjusted Gross Income (AGI) b. Gross Income c. Taxable Income d. Tax Bracket
41. This is the income you have after you subtract adjustments/exemptions (such as college tuition, money paid on interest on a loan, etc.).
    1. Adjusted Gross Income (AGI) b. Gross Income c. Taxable Income d. Tax Bracket
42. This would be any deduction for you, your spouse, and/or your children or dependents.
    1. Standard Deductions b. Itemized Deductions c. Exemptions d. Dependents e. Tax Credits
43. This is subtracted directly from the amount of taxes you owe and can be used for things such as adoption, retirement, savings plans, foreign tax credits, etc.
    1. Standard Deductions b. Itemized Deductions c. Exemptions d. Dependents e. Tax Credits
44. This is anyone who depends on your income.
    1. Standard Deductions b. Itemized Deductions c. Exemptions d. Dependents e. Tax Credits
45. This is a deduction which is determined by the amount of money spent on specific categories (such as medical expenses).
    1. Standard Deductions b. Itemized Deductions c. Exemptions d. Dependents e. Tax Credits
46. This is a deduction based on the amount of income you have not subject to taxation. It does not require you to keep track of expenses throughout the year.
    1. Standard Deductions b. Itemized Deductions c. Exemptions d. Dependents e. Tax Credits

**You are single and work one job. The W-2 for the job is on the next page. You have also inherited $2000; while this money is not taxable, the interest you earn from investing this money is taxable. Your 1099-INT show this value in box 1. You completed a Form 1040EZ, which is also on the next page.** *(All forms and info from IRS.gov).*

1. What is your salary? $
2. What is your adjusted gross income? $
3. What is your taxable income? $
4. How much federal tax was withheld from your salary? $
5. What was your interest income? $
6. What will you be paying in taxes OR what will your refund be? $
7. Was this a payment or a refund?

