

**ACC1701XA ACCOUNTING FOR DECISION MAKERS**  
**Semester 1, 2025/26**

**MOCK FINAL EXAM #3 – Questions Only**

**MCQ:**

**Question #: 1**

Silver Spirit Corporation had the following transactions during the month of January 2023:

- Received \$30,000 in cash from a customer for consulting services to be performed equally from January 2023 to February 2023.
- Sold merchandise worth \$25,000 to a customer, of which \$10,000 was received in cash and \$15,000 was on credit.
- Incurred operating expenses of \$12,000 for the month of January, of which 90% was paid in cash during the period.
- Paid \$3,000 in cash on an insurance policy that will only start in April 2023.
- Incurred \$2,200 in salaries to its employees for the month of January, which will only be paid in February 2023.

What is Silver Spirit's accrual-basis net income for the month of January?

- A. \$25,800
- B. \$22,800
- C. \$25,000
- D. \$26,200

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**Question #: 2**

Silver Spirit Corporation had the following transactions during the month of January 2023:

- Received \$30,000 in cash from a customer for consulting services to be performed equally from January 2023 to February 2023.
- Sold merchandise worth \$25,000 to a customer, of which \$10,000 was received in cash and \$15,000 was on credit.
- Incurred operating expenses of \$12,000 for the month of January, of which 90% was paid in cash during the period.
- Paid \$3,000 in cash on an insurance policy that will only start in April 2023.
- Incurred \$2,200 in salaries to its employees for the month of January, which will only be paid in February 2023.

What is Silver Spirit's cash-basis net income for the month of January?

- A. \$26,200
- B. \$22,800
- C. \$25,000
- D. \$25,800

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**Question #: 3**

Lavender Scent Co. received advance payment from a customer for services to be performed in the future, and had incorrectly recognized and recorded sales revenue. What is the effect of this error on the financial statements?

- A. No effect on Assets; Liabilities will be overstated; Equity will be understated.
- B. Assets will be overstated; No effect on Liabilities; Equity will be overstated.
- C. Assets will be overstated; Liabilities will be overstated; Equity will be understated.
- D. No effect on Assets; Liabilities will be understated; Equity will be overstated.

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**Question #: 4**

The following information is available for Peach Juice Bar Inc.

|   |        |
|---|--------|
| Sales Revenues                          | 84,000 |
| Unearned Commission Revenues            | 8,000  |
| Operating Expenses                      | 36,000 |
| Depreciation Expense                    | 5,000  |
| Interest Payable                        | 2,500  |
| Retained Earnings (beginning of period) | 50,000 |
| Stock Dividends                         | 5,000  |

After closing its books for the period, what will be the balance in the retained earnings account?

- A. \$88,000
- B. \$93,500
- C. \$93,000
- D. \$90,500

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**Question #: 5**

Pink Haven Corporation's reported the following selected amounts on Jan 1, 2023:

|                           | Debit    | Credit  |
|---------------------------|----------|---------|
| Gross Accounts Receivable | \$60,000 |         |
| Allowance for Bad Debts   |          | \$3,000 |

Pink Haven reported the following for the year 2023:

- Sales revenue of \$350,000. All sales during the year were on credit and Pink Haven collected \$290,000 from its customers during the year.
- Pink Haven wrote off \$10,000 worth of accounts receivable during the year.
- Pink Haven estimates that 6% of its outstanding accounts receivable at the end of the current year might become uncollectible.

What is Pink Haven's accounts receivable turnover ratio for 2023?

- A. 4.12
- B. 3.89
- C. 4.36
- D. 3.38

**Question #: 6**

Pink Haven Corporation's reported the following selected amounts on Jan 1, 2023:

|                           | Debit    | Credit  |
|---------------------------|----------|---------|
| Gross Accounts Receivable | \$60,000 |         |
| Allowance for Bad Debts   |          | \$3,000 |

Pink Haven reported the following for the year 2023:

- Sales revenue of \$350,000. All sales during the year were on credit and Pink Haven collected \$290,000 from its customers during the year.
- Pink Haven wrote off \$10,000 worth of accounts receivable during the year.
- Pink Haven estimates that 6% of its outstanding accounts receivable at the end of the current year might become uncollectible.

How much should Pink Haven record as its bad debt expense for 2023?

- A. \$6,600
- B. \$13,600
- C. \$3,600
- D. 9,600

**Question #: 7**

Tangerine Company manufactures and sells juicers. It estimates that warranty expense will be 3% of sales. The company's sales for the current period are \$260,000. The current period's entry to record the warranty expense is:

- A. Debit Warranty Expense \$7,800; credit Sales \$7,800.
- B. Debit Warranty Expense \$7,800; credit Warranty Provision \$7,800.
- C. Debit Warranty Provision \$7,800; credit Warranty Expense \$7,800.
- D. Debit Warranty Provision \$7,800; credit Cash \$7,800.

**Question #: 8**

No disclosure is required for contingent liabilities that are:

- A. Probable and non-estimable
- B. Remote and estimable
- C. Possible and non-estimable
- D. Possible and estimable

**Question #: 9**

FlashDash Company reported the following income statement information 2022 and 2023:

|                                  | 2022      | 2023      |
|----------------------------------|-----------|-----------|
| Sales                            | \$410,000 | \$550,000 |
| Cost of goods sold:              |           |           |
| Beginning inventory              | \$132,000 | \$144,000 |
| Cost of purchases                | 273,000   | 302,000   |
| Cost of goods available for sale | 405,000   | 446,000   |
| Ending inventory                 | 144,000   | 152,000   |
| Cost of goods sold               | 261,000   | 294,000   |

|              | 2022      | 2023      |
|--------------|-----------|-----------|
| Gross profit | \$149,000 | \$256,000 |

The beginning inventory balance for 2022 is correct. The ending inventory balance for 2023 is also correct. However, the ending inventory figure for 2022 was overstated by \$20,000. Given this information, the correct gross profit figures for 2022 and 2023 would be:

- A. \$129,000 for 2022 and \$256,000 for 2023.
- B. \$281,000 for 2022 and \$274,000 for 2023.
- C. \$129,000 for 2022 and \$276,000 for 2023.
- D. \$169,000 for 2022 and \$236,000 for 2023.

**Question #: 10**

Brown Earth Company purchased a soil mixing machine on January 1, 2022, for \$57,600. The machine has an estimated useful life of 8 years and a salvage value of \$15,040. Brown Earth uses the double declining-balance method of depreciation for all its assets. What will be the machine's carrying amount as of December 31, 2023?

- A. \$10,800
- B. \$32,400
- C. \$43,200
- D. \$14,400

**Question #: 11**

Green Pulp Company purchased an equipment for \$19,200 on July 1, 2020. The equipment was expected to last for 5 years with a salvage value of \$1,500. However, due to an accident Green Pulp had to scrap the equipment on Dec 31, 2022. Green Pulp uses the straight-line method of depreciation for all its assets. How much would Green Pulp recognize as the loss on disposal?

- A. \$8,580
- B. \$8,850
- C. \$10,350
- D. \$9,600

**Question #: 12**

Yellow Cheez Corporation used straight-line depreciation for a machine that cost \$120,000, and had a residual value of \$9,000. The machine had a 10-year useful life. After depreciating the asset for three complete years, Yellow Cheez spent \$30,000 for a major overhaul of the machine which increased the total useful life of the asset to 13 years, and reduced the residual value to \$2,000. Determine the revised amount of depreciation to be charged against the machine during each of the remaining years of its useful life:

- A. \$8,823
- B. \$8,470
- C. \$11,100
- D. \$11,470

**Question #: 13**

Blue Globe Corporation had 100,000 shares of \$5 par value common stock outstanding on January 1, 2022.

On March 10, 2022, the firm purchased 10,000 of its outstanding shares for \$14 per share.

On August 22, 2022, it reissued 7,000 shares at \$15 per share.

Given this information, the entry to record the reissuing of the remaining 3,000 shares on November 9, 2022, at \$10 per share would probably include a

- A. Credit to Treasury Stock of \$30,000
- B. Debit to Retained Earnings of \$5,000
- C. Debit to Paid-In Capital, Treasury Stock of \$12,000
- D. Debit to Loss on Sale of Stock of \$5,000

**Question #: 14**

Purple Folks Inc. issued 10,000 shares of no-par common stock for \$80 each. The journal entry to record this transaction would include a

- A. Debit to Capital in Excess of Par of \$800,000
- B. Credit to Common Stock of \$800,000
- C. Credit to Cash of \$800,000
- D. Debit to Common Stock of \$800,000

**Question #: 15**

White Cotton Inc. has the following shares outstanding:

- 50,000 shares of \$10 par value, 3% cumulative preferred shares
- 10,000 shares of \$8 par value, 7% non-cumulative preferred shares
- 40,000 shares of \$1 par value ordinary shares.

White Cotton is in its second year of operations. In the first year, it paid total cash dividends of \$10,000. In the second year, it paid total cash dividends of \$30,000. Calculate the amount of dividends per share that the ordinary shareholders will receive in the second year.

- A. No dividends for ordinary shareholders
- B. Ordinary dividends of \$0.10 per share
- C. Ordinary dividends of \$0.24 per share
- D. Ordinary dividends of \$0.11 per share

**Question #: 16**

Below are selected data from the financial statements of Cream-Puffs Corp:

|                   |           |
|-------------------|-----------|
| Total assets      | \$184,000 |
| Total liabilities | 84,000    |
| Total equity      | 100,000   |
| Net income        | 85,000    |
| Tax expense       | 8,000     |
| Interest expense  | 2,000     |

What is Cream-Puffs's times interest earned ratio?

- A. 46.50 times
- B. 42.00 times
- C. 42.50 times
- D. 47.50 times

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**Question #: 17**

The Dupont analysis for two companies, Northern Co. and Southern Co. are shown below:

|              | Return on Equity | Return on Sales | Asset Turnover | Assets-to-Equity |
|--------------|------------------|-----------------|----------------|------------------|
| Northern Co. | 29.25%           | 5.00%           | 1.3            | 4.5              |
| Southern Co. | 25.50%           | 5.00%           | 1.7            | 3                |

Which of the following statements is the most correct?

- A. Northern Co. is less profitable at generating net income from each dollar of sales.
- B. Northern Co. is more efficient in using its assets to generate sales.
- C. Northern Co. is able to use leverage to help it generate higher return on equity as compared to Southern Co.
- D. Northern Co. is less able to generate net income from investment made by the shareholders as compared to Southern.

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**Question #: 18**

Kelly is a financial analyst and she finds that the common size financial statement is a useful tool in performing her financial statement analysis of companies because it enables Kelly to:

- A. Evaluate financial statements of different companies within a given industry of approximately the same value.
  - B. Determine which companies in the same industry are at approximately the same stage of development.
  - C. Ascertain the relative potential of companies of similar size in different industries.
  - D. Compare the mix of revenue, and expenses, and determine efficient use of resources within the same company over time or between different companies within a given industry without respect to relative size.
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## ESSAY QUESTIONS

### Essay Question #1:

Answer ALL parts (part 1 and 2) of this essay problem. Round all intermediate calculations and final answers to 2 decimal places.

Casava Food Inc. is an online retailer startup selling cassava-based products. The company started operations on July 1, 2022 and is in its first year of operations. It has adopted June 30 as its fiscal year end and is on the periodic inventory system.

Below is the initial **unadjusted trial balance** of the company as at **June 30, 2023**:

| Unadjusted Trial Balance as at June 30, 2023 | Unadjusted Balance |                |
|--|--------------------|----------------|
|  | Debits             | Credits        |
| Cash   | 98,900             |                |
| Accounts Receivable                          | 15,000             |                |
| Prepaid Rent                                 | 2,000              |                |
| PPE  | 30,000             |                |
| Accounts Payable                             |                    | 12,000         |
| Notes Payable                                |                    | 50,000         |
| Common Stock - No Par                        |                    | 100,000        |
| Retained earnings                            |                    | 0              |
| Sales Revenue                                |                    | 120,000        |
| Salaries Expense                             | 7,500              |                |
| General Admin Expense                        | 3,600              |                |
| Purchases (for merchandise inventory)        | 125,000            |                |
| <b>Total</b>                                 | <b>282,000</b>     | <b>282,000</b> |

Casava Food performs adjustments on an annual basis. The following are additional information relating to its first year of operations, and has **not** been recorded.

- PPE (Property, plant & equipment) consists only of a delivery truck. The estimated useful life of the truck is 5 years, and total estimated usage over its lifetime is 50,000 kilometers. There is no residual value for the truck. Casava Food uses the units of production method for its depreciation of the truck. The truck was used for 7,500 kilometers in the first year of operations.
- Casava Food is on the periodic inventory system. On June 23, 2023, Casava Food purchased on credit a batch of 5,000 packets of cassava biscuits from a supplier at \$2 per packet. The goods were shipped on FOB shipping point terms but was not received by Casava Food until July 12, 2023. Casava's part time accountant thought the shipment was purchased FOB destination and so did not record the purchase.
- Casava Food is on the periodic inventory system. A physical count of its ending inventory on hands at June 30, 2023 reveals inventory worth \$53,000. Casava has not recorded COGS for the year.
- Casava Food uses the allowance method to account for bad debt. As at June 30, 2023, its aged list of unadjusted Accounts Receivable is as follows:

|                           | Number of days unpaid |         |         |
|---------------------------|-----------------------|---------|---------|
|                           | 0 – 30                | 31 - 90 | >90     |
| Accounts Receivable (\$)  | \$10,000              | \$4,000 | \$1,000 |
| Estimated Uncollectible % | 1%                    | 5%      | 10%     |

- (e) On May 1, 2023, Casava Food started operating a small pop-up kiosk at a shopping mall and paid advance rental for use of the kiosk from May 1 until August 31, 2023. Casava Food had recorded a prepaid on May 1<sup>st</sup> when it paid the 4 months advance rent on the kiosk
- (f) On June 1, 2023, Casava Food took out a 6-month \$50,000 notes from the bank, at an annual interest rate of 12%. Payments for both the principal and interest are due at maturity.
- (g) Income is taxable at a corporate income tax rate of 10%. Payment for the income tax is due only in December 2023.

**REQUIRED:**

**(1) Prepare all the necessary journal entries and closing entries related to inventory for each of the above events (a) to (g) for the fiscal year ending June 30, 2023.**

Closing entries not related to inventory are not required. Descriptions and dates to journal entries are not required, however please reference all your journal entries according to the above event labels (a) to (g). **Show ALL your workings.** (18 marks)

**(2) Prepare the Statement of Profit and Loss (Income Statement) for Casava Food Inc. for the year ended June 30, 2023. Workings are not required.** (12 marks)



## Essay Question #2:

Answer ALL parts (1 to 3) of this essay problem. Round all intermediate calculations and final answers to 2 decimal places.

The following information are given for Zykens Dance Corporation for the year 2022:

|   |         |
|---|---------|
| Depreciation expense                                      | 12,000  |
| Net income  | 45,000  |
| Payment of cash dividends                                 | 35,000  |
| Purchase of equipment (settled 50% in cash)               | 40,000  |
| Payment on retirement of long-term debt                   | 20,000  |
| Issuance of common stock (settled in cash)                | 20,000  |
| Cash received in the sale of land (includes \$5,000 gain) | 28,000  |
| Decrease in accounts receivable                           | 4,800   |
| Increase in inventory                                     | 3,200   |
| Increase in accounts payable                              | 2,000   |
| Cash balance, January 1, 2022                             | 102,000 |
| Cash balance, December 31, 2022                           | ?       |

### REQUIRED:

- (1) Prepare Zykens Dance Corporation's Statement of Cash Flows (using the indirect method) for the year ended December 31, 2022. Workings are not required. (22 marks)
- (2) What pattern can you identify from the three sections of the Statement of Cash Flows for Zykens Dance Corporation? How would you interpret it? Is there a net positive or negative cash flow for the year ended 2022? (4 marks)
- (3) Compute the following cash flow ratios for Zykens Dance Corporation for the year 2022: Show all your workings. (4 marks)
  - (i) Cash Flow to Net Income
  - (ii) Cash Flow Adequacy

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*End of Mock Final Exam #3*