

# ACC1701XA – AY2526 Sem1

## Mock Midterm Test 1

### ANSWER SOLUTION

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#### *Questions 1 to 3 are related to EarthAware Company*

The Statement of Financial Position for EarthAware Company is presented below:

EarthAware Company Statement of Financial Position As at December 31, 2023 and 2022		
	<u>2023</u>	<u>2022</u>
<b>Assets</b>		
Cash	\$39,000	\$32,500
Accounts Receivable	?	9,100
Land	52,000	52,000
Equipment	32,500	26,000
<b>Liabilities and Equity</b>		
Accounts payable	\$23,400	\$19,500
Notes payable	26,000	28,600
Share Capital	52,000	52,000
Retained earnings	35,100	?

Additional information for EarthAware's 2023 operations revealed that the company had revenues of \$65,000 for the year and \$10,000 of dividends were also declared and paid.

#### **Question #: 1**

Based on the information given, what is EarthAware's Retained Earnings balance as at 31<sup>st</sup> December 2022?

- ✓A. 19,500
- B. 28,600
- C. 58,500
- D. 35,100

Assets (32.5k + 9.1k + 52k + 26k)	\$119,600
Less Liabilities (19.5k + 28.6k)	(\$48,100)
Less Share Capital	(\$52,000)
<b>Retained Earnings</b>	<b>\$19,500</b>

**Question #: 2**

Based on the information given, what is EarthAware's Accounts Receivable balance as at 31<sup>st</sup> December 2023?

- A. 3,900
- B. 3,000
- ✓C. 13,000
- D. 23,000

Total Liabilities & Equity (23.4k + 26k + 52+ + 35.1k)	\$136,500
Less known Assets (39k + 52k + 32.5k)	(123,500)
<b>Accounts Receivable</b>	<b>\$13,000</b>

**Question #: 3**

Based on the information given, how much is EarthAware's expenses for the year of 2023?

- A. 49,400
- ✓B. 39,400
- C. 48,500
- D. 29,900

<u>Expense in 2023:</u>	
Beg RE	\$19,500
2023 revenues	\$65,000
Less dividends	(\$10,000)
Less End RE	(\$35,100)
<b>2023 Expenses</b>	<b>\$39,400</b>

**Questions 4 & 5 are related to Melody Services Inc.**

For the fiscal year of 2023, Melody Services Inc. reported a beginning balance of \$500,000 in assets and \$180,000 in liabilities. By the end of the year, assets had increased by \$225,000 while its liabilities had decreased by \$50,000. Its return on assets (ROA) for the year is 5% and its Net Profit Margin is 7%.

**Question #: 4**

What is Melody Service Inc's net income (i.e. net profit) for 2023? (Choose the closest answer)

- A. 29,375
- ✓B. 30,625
- C. 36,250
- D. 42,875

$$\text{Net Income} = 5\% \times [500,000 + (500,000 + 225,000)/2] = 30,625$$

**Question #: 5**

What is Melody Service Inc's sales revenue for 2023? (Choose the closest answer)

- A. 419,650
- B. 517,860
- C. 612,500
- ✓D. 437,500

$$\text{Sales Revenue} = 30,625 * / 7\% = 437,500$$

*\*Calculated from previous question.*

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**Questions 6 & 7 are related to NachoCheez Company.**

On Dec 31, the balances in NachoCheez Company's general ledger accounts resulted in the following totals: Assets of \$517,600, Liabilities of \$323,400, and Equity of \$200,500.

The total assets do not equal total liabilities plus equity because the following errors were made:

- (i) Supplies worth \$500 was purchased but was not included in assets because it got debited to Supplies Expense even though they were not consumed during the year.
- (ii) In recording a credit Sales of \$15,700, NachoCheez incorrectly credited \$17,500 into the Sales Revenue account. It debited the Accounts Receivable account correctly.
- (iii) A new cheese equipment purchased on credit for \$51,600 was incorrectly credited to the Payables account as \$56,100. It debited the PPE (Property, Plant & Equipment) account correctly.

**Question #: 6**

What is NachoCheez's correct total liabilities balance?

- ✓A. 318,900
  - B. 323,400
  - C. 327,900
  - D. 267,300
- 

**Question #: 7**

What is NachoCheez's correct total equity balance?

- A. 198,200
- B. 198,700
- ✓C. 199,200
- D. 200,500

	Assets	=	Liabilities	+	Equity	Discrepancy
Unadjusted Balance	517,600		323,400		200,500	6,300
<b>Corrections:</b>						
(i) Reclassify supplies expense to supplies asset account	500				500	-
(ii) Correct recording of sales which should be 15,700 instead of 17,500. Adjustment of 1,800 (17,500-15,700).					(1,800)	(1,800)
(iii) Correct recording of payables which should be 51,600 instead of 56,100. Adjustment of 4,500 (56,100-51,600).			(4,500)			(4,500)
<b>Corrected Balance:</b>	<b>518,100</b>	<b>=</b>	<b>318,900</b>	<b>+</b>	<b>199,200</b>	<b>-</b>

**Questions 8 to 12 are related to A-Games Company.**

The following shows the trial balance of A-Games Corporation as at 31<sup>st</sup> May 2023.

<b>Trial Balance as at 31st May 2023</b>	<b>Debit</b>	<b>Credit</b>
Cash	11,600	
Receivables	60,000	
Loss Allowance for ECL		2,000
Inventory	8,400	
Property, Plant & Equipment (PPE)	375,000	
Accumulated Depreciation		93,750
Accounts Payable		19,000
Salaries Payable		1,400
Long-term Debt		70,000
Share Capital		200,000
Retained Earnings		32,000
Sales Revenue		295,200
Cost of Goods Sold	158,600	
Salaries Expense	27,500	
Rent Expense	32,500	
General Admin Expense	38,000	
Interest Expense	1,750	
	<b>713,350</b>	<b>713,350</b>

In the month of June 2023, the following transactions occurred for A-Games.

- (i) Sold inventory for \$15,000, of which \$5,000 was sold for cash and the remaining was sold on credit. The inventory cost A-Games \$8,000.
- (ii) Purchased \$18,000 worth of inventory on credit.
- (iii) Hired a part time student for \$600 in June. The student agreed to be paid in cash on July 3<sup>rd</sup>.
- (iv) Paid interest on its debt in the amount of \$350 in cash.

**Question #: 8**

The general journal entry made by A-Games to record the sales transaction in June (refer to transaction (i) in the question) will include a:

- ✓A. Debit to Cost of Goods Sold for \$8,000
- B. Credit to Accounts Receivable for \$10,000
- C. Credit to Inventory for \$5,000
- D. Debit to Sales Revenue for \$15,000

Journal Entry to record transaction (i) is:

Dr	Cash	5,000	
Dr	Accounts Receivable	10,000	
	Cr	Sales Revenue	15,000
Dr	COGS	8,000	
	Cr	Inventory	8,000

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**Question #: 9**

What is A-Games's Inventory account balance at 30 June 2023?

- A. 26,400
- B. 34,400
- C. 8,400
- ✓D. 18,400

$$\begin{aligned}\text{Ending Inventory} &= \text{Beg Inventory } 8,400 - \text{(i) } 8,000 + \text{(ii) } 18,000 \\ &= 18,400\end{aligned}$$

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**Question #: 10**

What should be the general journal entry that A-Games record for the transaction involving the part time student in June (refer to transaction (iii) in the question)?

- A. Dr Salaries Expense \$600, Cr Cash \$600
- ✓B. Dr Salaries Expense \$600, Cr Salaries Payable \$600
- C. Dr Salaries Payable \$600, Cr Salaries Expense \$600
- D. No journal entry to be recorded in June for this transaction.

**Question #: 11**

What is the Net Income of A-Games for the 6 months period ending June 30, 2023?

- A. 50,900
- B. 43,500
- ✓C. 42,900
- D. 36,850

Refer to the Trial Balance Worksheet below:

Trial Balance	As at 31st May 2023		June 2023 Transactions			As at 30th June 2023	
	Debit	Credit				Debit	Credit
Cash	11,600		(i) & (iv)	5,000	350	16,250	
Receivables	60,000		(i)	10,000		70,000	
Loss Allowance for ECL		2,000					2,000
Inventory	8,400		(i) & (ii)	18,000	8,000	18,400	
Property, Plant & Equipment (PPE)	375,000					375,000	
Accumulated Depreciation		93,750					93,750
Accounts Payable		19,000	(ii)		18,000		37,000
Salaries Payable		1,400	(iii)		600		2,000
Long-term Debt		70,000					70,000
Share Capital		200,000					200,000
Retained Earnings		32,000					32,000
Sales Revenue		295,200	(i)		15,000		310,200
Cost of Goods Sold	158,600		(i)	8,000		166,600	
Salaries Expense	27,500		(iii)	600		28,100	
Rent Expense	32,500					32,500	
General Admin Expense	38,000					38,000	
Interest Expense	1,750		(iv)	350		2,100	
<b>Total</b>	<b>713,350</b>	<b>713,350</b>		<b>41,950</b>	<b>41,950</b>	<b>746,950</b>	<b>746,950</b>

$$\begin{aligned}
 \text{Net Income} &= \text{Revenues} - \text{Expenses} \\
 &= 310,200 - (166,600 + 28,100 + 32,500 + 38,000 + 2,100) \\
 &= 310,200 - 267,300 \\
 &= 42,900
 \end{aligned}$$

**Question #: 12**

What is the total amount of current assets A-Games should report at June 30, 2023?

- A. 92,650
- B. 104,650
- ✓C. 102,650
- D. 110,650

Refer to the Trial Balance Worksheet solution above in Q#11.

$$\begin{aligned}
 \text{Current Assets} &= 16,250 + 70,000 - 2,000 + 18,400 \\
 &= 102,650
 \end{aligned}$$

**Question #: 13**

At the end of fiscal year 2023, TerraCott Holdings had net income of \$165,000 prior to making any adjusting entries.

The following adjusting entries were made:

- (i) Service fees of \$7,500 collected in advance in 2022 that have now been earned.
- (ii) Interest of \$4,200 earned this period on a notes receivable, but not yet collected.
- (iii) Adjustment of \$1,200 to prepaid insurance for an insurance policy that expired at the end of 2023.
- (iv) Estimated income taxes for the 2023 year in the amount of \$6,300, payable in March 2024.

After recording these adjustments, TerraCott's net income for 2023 would be:

- A. 170,400
- ✓B. 169,200
- C. 160,800
- D. 145,800

Unadjusted Net Income	165,000
Adjustments:	
(i) sales rev from unearned	7,500
(ii) interest income	4,200
(iii) insurance expense	(1,200)
(iv) Income tax exp	(6,300)
<b>Adjusted Net Income</b>	<b>169,200</b>

**Question #: 14**

On its Income Statement for the year 2023, Mystery Lotus Corporation reported service revenue of \$81,000 (assume all sales are on credit). The related Statement of Financial Position accounts for the beginning and end of the year were:

	<u>Jan 1, 2023</u>	<u>Dec 31, 2023</u>
Unearned Service Revenue	0	29,250
Accounts Receivable	6,750	5,350

Based on the given information, the amount of cash collected during 2023 from Mystery Lotus's customers was:

- ✓A. 111,650
- B. 110,250
- C. 82,400
- D. 108,850

$$\begin{aligned}
\text{Cash collected from advance sales} &= \text{Unearned revenue end balance} - \text{Unearned revenue beg bal} \\
&= 29,250 - 0 \\
&= 29,250 \\
\text{Cash collected from AR} &= \text{Beg AR} + \text{Current period credit sales} - \text{End AR} \\
&= 6,750 + 81,000 - 5,350 \\
&= 82,400 \\
\text{Total cash collected} &= 29,250 + 82,400 \\
&= 111,650
\end{aligned}$$


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**Question #: 15**

The following information is available for GoldenSprint Inc. before closing the accounts:

Retained earnings	30,000
Sales Revenue	120,000
Cost of Goods Sold	85,000
Salaries Expense	32,000
General Admin Expenses	15,000
Rent Expense	12,000
Prepaid Salaries	4,500
Expected Credit Loss	3,500
Dividends Payable	2,000

The closing entry will include a:

- A. Debit to Retained Earnings for \$25,000
- B. Debit to Retained Earnings for \$29,500
- C. Debit to Retained Earnings for \$24,000
- ✓D. Debit to Retained Earnings for \$27,500

Closing entry:

Dr	Sales	120,000	
Dr	Retained Earnings	27,500	
	Cr	Expenses (85k + 32k + 15k + 12k + 3,500)	147,500

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**Question #: 16**

Which of the following scenarios is least likely to violate the principles of internal controls?

- A. Adam has recently been hired by a company and he has been tasked with recording all incoming customer cash receipts and then posting the customer payments to their respective accounts.
- B. Bob prides himself on hiring quality workers who require little supervision. As office manager, Bob gives his employees full discretion over their tasks and does not see the need to perform independent reviews of their work.



- ✓C. Charlize has recently been promoted to store manager, and is now authorized to perform transactions as large as \$5,000 but must obtain additional authorization from the company's finance manager for larger transactions.
- D. Daphne maintains the physical inventory in the company's warehouse. Her supervisor had to go on emergency leave for three months and Daphne's employer had given her the additional task of entering the inventory purchases and sales in the accounting records during this time.

***Questions 17 to 19 are related to MuchoFlo Company, but each question relates to an INDEPENDENT scenario and is not connected to any other questions in the assessment.***

The Income Statement and Statement of Financial Position for MuchoFlo Pte. Ltd. for the year ended December 31, 2023 are shown below:

MuchoFlo Pte Ltd Income Statement For the Year Ended December 31, 2023		MuchoFlo Pte Ltd Statement of Financial Position As at December 31, 2023	
Sales Revenue	1,257,600	<b>Assets</b>	
Cost of Goods Sold	(986,500)	Current Assets:	
Gross Profit	271,100	Cash	890,000
General Admin Expenses	(167,000)	Receivables	420,000
Depreciation Expense	(76,000)	Inventory	480,000
Operating Income	28,100	Total Current Assets	1,790,000
Interest Expense	(8,000)	Non-current Assets:	
Profit Before Tax	20,100	Property, Plant & Equipment	300,000
Income Tax Expense	(11,500)	Less: Accumulated Depreciation	(152,000)
<b>Net Income</b>	<b>8,600</b>	Total Non-current Assets	148,000
		<b>Total Assets</b>	<b>1,938,000</b>
		<b>Liabilities</b>	
		Current Liabilities:	
		Accounts Payable	226,000
		Other Payables	102,000
		Total Current Liabilities	328,000
		Non-current Liabilities:	
		Long term Debt	400,000
		Total Liabilities	728,000
		<b>Equity</b>	
		Share Capital	1,000,000
		Retained Earnings	210,000
		Total Equity	1,210,000
		<b>Total Liabilities &amp; Equity</b>	<b>1,938,000</b>

### Question #: 17

In order to avoid reporting a loss in 2023, MuchoFlo had purposely inflated its revenue by recording fictitious credit sales in the total amount of \$50,000, with no recording of cost of goods sold. To further reduce expenses, it had also failed to record \$15,000 worth of expenses incurred on credit. What is the effect of these fraudulent transactions on its financial statements?

*(Note: This is an independent scenario and is not connected to any other questions in this midterm assessment)*

- ✓A. Assets overstated by \$50,000, Liabilities understated by \$15,000, and Equity overstated by \$65,000.
- B. Assets understated by \$50,000, Liabilities overstated by \$15,000, and Equity understated by \$65,000.
- C. Assets understated by \$50,000, Liabilities understated by \$15,000, and Equity understated by \$35,000.
- D. Assets overstated by \$50,000, Liabilities overstated by \$15,000, and Equity overstated by \$35,000.

Fictitious entry recorded:

Dr	Accounts Receivable	50,000	→ Assets overstated 50k
	Cr Sales Revenue	50,000	→ Equity overstated 50k

Missing entry not recorded:

Dr	Expenses	15,000	→ Equity overstated 15k
	Cr Accounts Payable	15,000	→ Liabilities understated 15k

Total effect = Assets overstated by 50k, Liabilities understated by 15k, Equity overstated by 65k.

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### Question #: 18

During 2023, MuchoFlo had received payment in advance from its customers in the amount of \$57,000 for services to be performed in 2024. MuchoFlo's newly hired accountant Selena however, had incorrectly recorded the whole amount to Sales Revenue. Selena had also incorrectly credited the Other Payables account when recording depreciation expense for 2023. During the external audit, MuchoFlo's auditors discovered the errors and made the necessary corrections, the corrected balances are:

*(Note: This is an independent scenario and is not connected to any other questions in this midterm assessment)*

- A. Assets \$1,938,000; Liabilities \$709,000; Equity \$1,229,000
- ✓B. Assets \$1,862,000; Liabilities \$709,000; Equity \$1,153,000
- C. Assets \$1,805,000; Liabilities \$652,000; Equity \$1,153,000
- D. Assets \$1,862,000; Liabilities \$785,000; Equity \$1,077,000

Correcting Entries:

Dr	Sales Revenue	57,000	
	Cr	Unearned Revenue	57,000

Dr	Other Payables	76,000	
	Cr	Accumulated Depreciation	76,000

Corrected Balances:

Assets	= 1,938,000 – 76,000
	= 1,862,000
Liabilities	= 728,000 + 57,000 – 76,000
	= 709,000
Equity	= 1,210,000 – 57,000
	= 1,153,000

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**Question #: 19**

Assuming MuchoFlo raised additional \$700,000 in cash on Dec 31, 2023, of which \$500,000 was through a loan and the remaining \$200,000 was through the issuance of new shares to its equity shareholders. What is MuchoFlo's new debt ratio immediately after these financing transactions as at the end of 2023? Choose the closest answer.

*(Note: This is an independent scenario and is not connected to any other questions in this midterm assessment)*

- ✓A. 0.47
- B. 0.63
- C. 0.38
- D. 0.54

New Balances:

Assets	= 1,938,000 + 700,000
	= 2,638,000
Liabilities	= 728,000 + 500,000
	= 1,228,000
Equity	= 1,210,000 + 200,000
	= 1,410,000
Debt Ratio	= 1,228,000 / 2,638,000
	= 0.47

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**Question #: 20**

Ethics are especially important in accounting because

- ✓A. Independent accountants represent the public interest
  - B. Accountants can steal money more easily than other employees
  - C. Accountants have historically committed more company thefts than other employees
  - D. The accounting profession does not have a code of professional conduct
- 

**Question #: 21**

You made an investment in Amazon Inc. by purchasing their shares. Which of the financial statements provides the information of how Amazon shareholders' interest in the company have changed during a time period?

- ✓A. Statement of Changes in Equity
  - B. Statement of Financial Position
  - C. Statement of Profit & Loss
  - D. Statement of Cash Flows
- 

**Question #: 22**

If Pretz Inc. receives rent for January 2024 from a tenant in December 2023, that rent would be

- A. A revenue in 2023
- B. An asset in 2023
- C. An expense in 2023
- ✓D. A liability in 2023

Pretz records the following entry in Dec 2023 when it receives rent from its tenant:

Dr.	Cash	
	Cr.	Unearned Rent (liability)

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**Questions 23 to 24 are related to Yoyogurt Corp.**

Yoyogurt Corp. uses the allowance method of accounting for uncollectible accounts. The following summary schedule was prepared from an aging of accounts receivable outstanding on December 31 of the current year.

<b>Yoyogurt Corp.</b>		
<b>Schedule of Accounts Receivable by Age</b>		
<b>Classification of Receivables</b>	<b>Amount</b>	<b>Estimated % Uncollectible</b>
Current	16,000	0%
1-30 days past due	8,600	1%
31-60 days past due	3,800	5%
61-90 days past due	3,500	10%
Over 90 days past due	2,400	25%
<b>Total</b>	<b>34,300</b>	

The following additional information is available for the current year:

- (i) Loss allowance at January 1 is \$5,200 (normal balance)
- (ii) Accounts receivable written off during the period is \$6,000.
- (iii) Amount recovered from previously written off accounts is \$828

**Question #: 23**

How much Expected Credit Loss should Yoyogurt report for the current year ending December 31?

- A. \$2,206
- B. \$1,226
- ✓ C. \$1,198
- D. \$1,254

	<b>Amount</b>	<b>Estimated % Uncollectible</b>	<b>Estimated Uncollectible</b>
Current	16,000	0%	<b>0</b>
1-30 days past due	8,600	1%	<b>86</b>
31-60 days past due	3,800	5%	<b>190</b>
61-90 days past due	3,500	10%	<b>350</b>
Over 90 days past due	2,400	25%	<b>600</b>
<b>Total</b>	<b>34,300</b>		<b>1,226</b>

**Loss Allowance Account Movement:**

Beg Bal – Write off + Recovery + ECL = End Bal

5,200 – 6,000 + 828 + ECL = 1,226

ECL = 1,198

**Question #: 24**

The journal entries that Yoyogurt would have recorded for the recovery of the previously written off accounts (refer to transaction (iii) in the question) would include the following entry:

- |      |                         |     |     |
|------|-------------------------|-----|-----|
| ✓ A. | Dr Accounts Receivable  | 828 |     |
|      | Cr Loss Allowance       |     | 828 |
| B.   | Dr Accounts Receivable  | 828 |     |
|      | Cr Expected Credit Loss |     | 828 |
| C.   | Dr Cash                 | 828 |     |
|      | Cr Loss Allowance       |     | 828 |
| D.   | Dr Cash                 | 828 |     |
|      | Cr Expected Credit Loss |     | 828 |
- 

**Question #: 25**

If Ash Co's average collection period is 22.81 days, its cost of goods sold is \$560,000, sales revenue is \$680,000, and its ending accounts receivable balance for the period is \$41,000. Then its beginning accounts receivable balance should be: (round intermediate answers to 2 decimal places, choose the closest answer)

- A. \$18,623  
 B. \$29,000  
 C. \$42,500  
 ✓ D. \$44,000
- 

**Question #: 26**

GudRide Company sold a fleet of cars to Grub Inc. on July 1, 2023. Grub Inc. signs a \$800,000, 4%, 9-month note for purchase of the fleet. What entry will GudRide Company make on March 31, 2024?

- |      |                        |         |         |
|------|------------------------|---------|---------|
| A.   | Dr Cash                | 824,000 |         |
|      | Cr Notes Receivable    |         | 800,000 |
|      | Cr Interest Revenue    |         | 24,000  |
| ✓ B. | Dr Cash                | 824,000 |         |
|      | Cr Notes Receivable    |         | 800,000 |
|      | Cr Interest Receivable |         | 16,000  |
|      | Cr Interest Revenue    |         | 8,000   |
| C.   | Dr Cash                | 824,000 |         |
|      | Cr Notes Receivable    |         | 824,000 |
| D.   | Dr Cash                | 800,000 |         |
|      | Dr Interest Receivable | 24,000  |         |
|      | Cr Notes Receivable    |         | 800,000 |
|      | Cr Interest Revenue    |         | 24,000  |
-

**Questions 27 to 29 are related to El Primo Company.**

On 5 October, El Primo Company sold its products to Rico Inc. for \$20,000 cash and \$15,000 on credit, and to Piper Inc. for \$20,000 on credit. The credit term given by El Primo to all its customers is 5/5, n/30. The products sold cost El Primo \$30,000 and were purchased back in September.

On 8 October, Piper Inc. paid El Primo the full amount outstanding.

On 22 October, Rico Inc. paid El Primo the full amount outstanding.

**Question #: 27**

For the transactions on 5 October, which of the following entries would be part of the journal entries that El Primo Company record?

- A. Debit Cash \$20,000; Debit Accounts Receivable \$35,000; Debit Inventory \$30,000.
  - B. Credit Sales Revenue \$20,000; Credit Accounts Receivable \$35,000; Credit Inventory \$30,000
  - C. Credit Sales Revenue \$55,000; Credit Inventory \$35,000.
  - ✓ D. Debit Cash \$20,000; Debit Accounts Receivable \$35,000; Debit Cost of Goods Sold \$30,000.
- 

**Question #: 28**

For the transaction on 8 October, which of the following journal entry would El Primo Company record?

- A. Debit Cash \$20,000; Credit Accounts Receivable \$20,000.
  - ✓ B. Debit Cash \$19,000; Debit Sales Discount \$1,000; Credit Accounts Receivable \$20,000.
  - C. Debit Cash \$19,000; Debit Sales Revenue \$1,000; Credit Accounts Receivable \$20,000.
  - D. Debit Cash \$20,000; Credit Sales Discount \$1,000; Credit Accounts Receivable \$19,000.
- 

**Question #: 29**

For the transaction on 22 October, which of the following journal entry would Rico Inc. record?

- A. Debit Accounts Receivable \$15,000 and Credit Cash \$15,000.
  - B. Debit Accounts Payable \$15,000; Credit Inventory \$15,000.
  - ✓ C. Debit Accounts Payable \$15,000 and Credit Cash \$15,000.
  - D. Debit Cash \$15,000 and Credit Accounts Receivable \$15,000.
-

**Question #: 30**

Leon is the Chief Financial Officer (CFO) of Draco Inc. and is preparing the financial statements for the year. Which of the scenarios below shows that Leon is engaging in earnings management?

- A. Leon is reconsidering to change some accounting estimates so as to report less expenses in order to report a small profit instead of a loss.
  - B. Leon is reconsidering to recognize unearned revenues from next year's subscriptions to boost sales figure so as to meet his year-end bonus target.
  - C. Leon is reconsidering to stretch some accounting assumptions to help improve its earnings figure so as to meet the requirements of a large loan application with the bank.
  - ✓ D. All of the above.
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**END OF MOCK MIDTERM TEST 1**