

ACC1701XA – AY2526 Sem1

Mock Midterm Test 2

ANSWER SOLUTION

Question #: 1

The statement of financial position of a company lists:

- A. The types and amounts of its revenues and expenses.
- B. Only the information about what happened to its equity during a time period.
- ✓C. The types and amounts of its assets, liabilities, and equity as at a specific date.
- D. The inflows and outflows of its cash during the period.

Question #: 2

Paxton Computer Services reported net income of \$25,000 for the year. At the beginning of the year the company had \$400,000 in assets and \$150,000 in liabilities. By the end of the year, assets had increased by \$150,000, but so had liabilities by \$75,000. Calculate its Return on Assets (ROA).

- ✓A. 5.26%
- B. 8.70%
- C. 7.69%
- D. 4.55%

$$ROA = 25,000 / [(400,000 + (400,000 + 150,000)) / 2] = 0.0526$$

Question #: 3

The transactions carried out by Galaxy Corporation during the year caused an increase in total assets of \$65,250 and a decrease in total liabilities of \$8,005. If no additional share capital was issued during the year and dividends of \$10,000 were paid, what was the net income for the year?

- A. \$47,245
- B. \$67,245
- C. \$63,255
- ✓D. \$83,255

$$\text{Equity} = \text{Assets} - \text{Liabilities}$$

$$\text{Increase in Equity: } \$65,250 - (-\$8,005) = 73,255$$

$$\text{Change in Equity: } 73,255 = \text{Net Income} - \$10,000$$

$$\text{Net Income} = 83,25$$

Question #: 4

Lil-Orchid Art Gallery started its business on September 2022 with \$50,000 cash and equipment valued at \$15,000. Other transactions in the month of September includes:

- Purchased \$700 of art supplies on credit.
- Paid \$1,800 cash for the receptionist's salary.
- Sold a painting for an artist and collected a \$9,500 cash commission on the sale.
- Completed an art appraisal and billed the client \$2,000. Client has not made payment.

What was the balance of the cash account at the end of September after all the above transactions were posted?

- A. \$74,000.
- B. \$57,000.
- C. \$59,000.
- ✓D. \$57,700.

$$\$50,000 - \$1,800 + \$9,500 = \$57,700$$

Question #: 5

Which of the following statements is incorrect?

- A. The normal balance of prepaid rent is a debit.
- B. The normal balance of dividends is a debit.
- C. The normal balance of unearned revenues is a credit.
- ✓D. The normal balance of salaries expense is a credit.

Question #: 6

Lalita Industries received its utilities bill for the month of September in the amount of \$1,600, and immediately paid half of it. The general journal entry to record this transaction in September will include a

- ✓A. Debit to Utilities Expense for \$1,600.
 - B. Credit to Accounts Payable for \$1,600.
 - C. Debit to Cash for \$800.
 - D. Debit to Accounts Payable for \$800.
-

Question #: 7

A trial balance taken at year-end showed total credits exceed total debits by \$4,950. This discrepancy could have been caused by:

- A. An error in the general journal where a \$4,950 increase in Accounts Receivable was recorded as an increase in Cash.
- B. An error in the general journal where a \$4,950 increase in Accounts Payable was recorded as a decrease in Accounts Payable.
- C. The balance of \$49,500 in Accounts Payable being entered in the trial balance as \$4,950.
- ✓D. The balance of \$5,500 in the Inventory account being entered on the trial balance as a debit of \$550.

Question #: 8

On June 30, Hugo Company had an Accounts Receivable balance of \$18,000. During the month of July, Hugo collected \$52,000 from its customers on account. The July 31 Accounts Receivable balance was \$13,000. What was the amount of credit sales during July?

- A. \$5,000.
- ✓B. \$47,000.
- C. \$52,000.
- D. \$57,000.

$$\text{\textcolor{red}{\$18,000 + Credit Sales - \$52,000 = \$13,000}}$$

$$\text{\textcolor{red}{Credit Sales = \$47,000}}$$

Questions 9 & 10 are related to Supreme Moon Property Holdings.

Supreme Moon Property Holdings, a calendar-year company, had the following transactions during 2022:

- On February 1, rented a shophouse to Aqua Cloud Enterprise. Supreme Moon received one year's worth of rent in the amount of \$150,000 on February 1.
- On September 30, collected \$15,000 cash commission from its customer Sun Energy Corp for helping to sell one of Sun's manufacturing facility in September.
- On November 2, performed and completed appraisal services in the amount of \$18,000 for Skye Inc. Supreme Moon had only collected payment of \$8,000 from Skye.
- On December 15, received \$13,000 cash from a client for services that will be performed during 2023.
- Incurred operating expenses of \$97,000, of which 75% was paid during the year.
- On December 1, paid \$6,800 on a fire insurance policy that will start in March of 2023.

Question #: 9

What is Supreme Moon's cash-basis net income?

- A. \$98,450
- B. \$74,200
- ✓C. \$106,450
- D. \$82,200

<i>Rent revenue</i>	<i>150,000</i>
<i>Commission revenue</i>	<i>15,000</i>
<i>Appraisal revenue</i>	<i>8,000</i>
<i>Other services revenue</i>	<i>13,000</i>
<i>Less Op Exp (97k x 75%)</i>	<i>(72,750)</i>
<i>Less insurance exp</i>	<i><u>(6,800)</u></i>
<i>Net Income</i>	<i><u>106,450</u></i>

Question #: 10

What is Supreme Moon's accrual-basis net income?

- ✓A. \$73,500
- B. \$86,000
- C. \$79,700
- D. \$89,750

<i>Rent revenue</i>	<i>137,500</i>
<i>Commission revenue</i>	<i>15,000</i>
<i>Appraisal revenue</i>	<i>18,000</i>
<i>Less Op Exp</i>	<i><u>(97,000)</u></i>
<i>Net Income</i>	<i><u>73,500</u></i>

Question #: 11

On April 1, 2022, Siena Company paid \$48,000 for two years rent and recorded the entire amount as a debit to Prepaid Rent. The adjusting entry on December 31, 2022, would include a:

- A. Credit to Rent Expense of \$18,000
 - B. Credit to Prepaid Rent of \$24,000
 - C. Debit to Rent Expense of \$24,000
 - ✓D. Debit to Rent Expense of \$18,000
-

Questions 12 & 13 are related to Dong Fang Corporation.

Dong Fang Corporation issued financial statements for the year ended December 31, 2022 and reported Total Assets of \$900,000, Total Liabilities of \$780,000 and Net Loss of \$2,250. However, Dong Fang Corporation had **FAILED** to include the following:

- Advance payment from a customer in the amount of \$10,000 was collected for services to be performed in 2023.
- Depreciation for \$2,100 have been incurred by the end of the year.
- Insurance of \$1,050, originally recorded as prepaid, have been incurred by the end of the year.
- Rent of \$1,200 have been incurred by the end of the year, but payment has not been made.

Question #: 12

What is the correct amount of Total Assets it should have reported on its Dec 31, 2022 financial statements?

- A. \$908,050
- B. \$892,150
- C. \$905,650
- ✓D. \$906,850

The following table shows the calculation for the answers to question 12 and 13.

	Assets	Liabilities	Equity	Net Profit
Reported Amount (Incorrect)	\$900,000	\$780,000	\$120,000	(\$2,250)
<u>Adjustments:</u>				
Unearned Rev	10,000	10000		
Depreciation	-2100		-2,100	-2,100
prepaid ins	-1,050		-1,050	-1,050
Accrued exp		1,200	-1,200	-1,200
Correct Amount	\$906,850	\$791,200	\$115,650	(\$6,600)

Question #: 13

What is the correct amount of Net Income (Loss) it should have reported on its Dec 31, 2022 financial statements?

- A. \$3,400
- B. \$4,450
- C. (\$5,400)
- ✓D. (\$6,600)

Question #: 14

Black Dragon Co. failed to make the end-of-period adjustment to remove from its Unearned Management Revenues account the amount of management revenues that were earned. What is the effect of this omission on its financial statements prepared?

- A. Liabilities understated and equity overstated
- B. Liabilities overstated and assets overstated.
- ✓C. Liabilities overstated and equity understated.
- D. Liabilities understated and assets understated.

Missing entry not recorded:

Dr Unearned Revenue	→ Liabilities overstated
Cr Revenues	→ Equities understated

Question #: 15

Two main accounting principles that are relied on in the adjusting process are:

- ✓A. Revenue recognition and matching
- B. Revenue recognition and cash-basis
- C. Matching and cost.
- D. Matching and impairment.

Question #: 16

The following information is available for Didi Inc. before closing the accounts. In the closing process, what is the total amount that should be closed to Retained Earnings?

Share capital	100,000
Retained earnings	15,000
Dividends	8,000
Dividends Payable	5,000
Sales Revenue	162,000
Salaries Expense	38,000
Depreciation Expense	4,000
Insurance Expense	3,300
Rent Expense	21,000
Prepaid Rent	7,000

- A. \$95,700
- ✓B. \$87,700
- C. \$83,700
- D. \$80,700

$$\text{Net Income} = 162k - 38k - 4k - 3.3k - 21k = 95.7k$$

$$\text{Closed to RE : NI} - \text{Dividends} = 95.7k - 8k = 87.7k$$

Questions 17 to 19 are related to Qing Cang Systems Pte. Ltd., 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 of Qing Cang Systems Pte. Ltd. for the year ended December 31, 2022 are shown below:

Qing Cang Systems Pte. Ltd. Income Statement For the Year Ended December 31, 2022		Qing Cang Systems Pte. Ltd. Statement of Financial Position As at December 31, 2022	
Sales Revenue	780,000	Assets	
Cost of Goods Sold	(465,000)	Current Assets:	
Gross Profit	315,000	Cash	365,000
Rent Expense	(65,000)	Receivables	102,000
Salaries Expense	(76,000)	Inventory	98,000
Advertising Expense	(24,500)	Total Current Assets	565,000
Utilities Expense	(6,200)	Non-current Assets:	
Operating Income	143,300	Property, Plant & Equipment	300,000
Interest Expense	(12,000)	Less: Accumulated Depreciation	(60,000)
Profit Before Tax	131,300	Total Non-current Assets	240,000
Income Tax Expense	(15,000)	Total Assets	805,000
Net Income	116,300	Liabilities	
		Current Liabilities:	
		Accounts Payable	71,700
		Interest Payable	12,000
		Total Current Liabilities	83,700
		Non-current Liabilities:	
		Long term Debt	100,000
		Total Liabilities	183,700
		Equity	
		Share Capital	450,000
		Retained Earnings	171,300
		Total Equity	621,300
		Total Liabilities & Equity	805,000

Question #: 17

If during the year-end audit, the auditor found that a payment of an account payable for \$5,500 was previously recorded twice, what will the corrected financial statements reflect after the auditor corrects the error?

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

- A. Total Assets of \$810,500; Total Liabilities of 189,200; Net Income of \$110,800.
- ✓B. Total Assets of \$810,500; Total Liabilities of 189,200; Net Income of \$116,300.
- C. Total Assets of \$799,500; Total Liabilities of \$178,200; Net Income of \$116,300.
- D. Total Assets of \$805,000; Total Liabilities of \$189,200 ; Net Income of \$110,800.

Correcting Journal Entry is:

Dr Cash 5,500

Cr Accounts Payable 5,500



Assets = 805,000 + 5,500 = 810,500



Liabilities = 183,700 + 5,500 = 189,200

Question #: 18

What is the Net Profit Margin of Qing Cang Systems Pte. Ltd.?

- ✓A. 14.91%
- B. 36.92%
- C. 14.45%
- D. 39.13%

$116,300 / 780,000 = 14.91\%$

Question #: 19

During the year-end audit, the auditor found that a credit sale of \$24,000 was previously incorrectly recorded as \$42,000, and as a result of this cost of goods sold was also incorrectly recorded as \$23,100 instead of \$13,200. What is the corrected Net Profit Margin after the auditor corrects the errors?

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

- ✓A. 14.20%
- B. 15.59%
- C. 12.90%
- D. 14.02%

Correcting Journal Entry:

Dr Sales Rev 18,000

Dr Inventory 9,900

Cr AR 18,000

Cr COGS 9,900

$\text{Corrected Net Profit Margin} = (116,300 - 8,000 + 9,900) / (780,000 - 18,000) = 14.20\%$

Question #: 20

A post-closing trial balance does not include which of the following account?

- A. Prepaid Expense
- B. Interest Payable
- C. Loss Allowance
- ✓D. Dividends

Question #: 21

You are designing a system of internal accounting control for your company. Which of the following recommendations would you most likely suggest to your company for implementation?

- A. Hire only Certified Public Accountants for all accounting personnel.
- ✓B. Pre-number all appropriate forms, such as checks and sales invoices.
- C. Employees should not be rotated among jobs so as to obtain the benefit of specialization.
- D. Share responsibility and authority for a given function among several employees.

Question #: 22

Temporary accounts include all of the following except:

- A. Consulting revenue.
- B. Dividends.
- C. Salaries expense.
- ✓D. Prepaid expense.

Question #: 23

Sindhu Sports Company 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.

No. of Days Outstanding	Amount	Estimated Percentage of Uncollectible
0 - 60 days	\$150,000	5%
60 - 120 days	\$80,000	10%
Over 120 days	\$20,000	30%

The following additional information is available for the current year:

- Loss allowance at January 1 is \$18,000 (normal balance)
- Accounts receivable written off during the period is \$6,200

If Sindhu Sports Company bases its estimate of uncollectible accounts on the aging of accounts receivable, Expected Credit Loss for the current year ending December 31 is

- A. \$2,700
- B. \$3,500
- ✓C. \$9,700
- D. \$21,500

No. of Days Outstanding	Amount	Estimated % Uncollectible	Amount
0 - 60 days	150,000	5%	7,500
60 - 120 days	80,000	10%	8,000
Over 120 days	20,000	30%	6,000
Total	250,000		21,500

Loss Allowance Account Movement:

$$\text{Beg Bal} - \text{Write off} + \text{Recovery} + \text{ECL} = \text{End Bal}$$

$$18,000 - 6,200 + 0 + \text{ECL} = 21,500$$

$$\text{ECL} = 9,700$$

Question #: 24

Roger & Co. uses the allowance method to account for uncollectible accounts. During the year, it wrote off Fedrick Corporation's account for an amount of \$5,000. What is the effect of the write off on Roger's net income and net realizable value of accounts receivable?

- A. No effect on Net Income; \$5,000 decrease in net realizable value of accounts receivable.
- ✓B. No effect on Net Income; No effect on net realizable value of accounts receivable.
- C. \$5,000 decrease of Net Income; No effect on net realizable value of accounts receivable.
- D. \$5,000 decrease of Net Income; \$5,000 decrease in net realizable value of accounts receivable.

Question #: 25

On March 1, 2022, TokTok Company accepted an \$80,000, 6-month, 6% note from one of its trading partners. Both the principal and interest are due at the maturity of the note. TokTok is on a June 30 fiscal year end. Which of the following entry is most likely to be recorded on June 30, 2022?

- A. Credit to Notes Receivable of \$1,600.
 - B. Credit to Interest Income of \$2,400
 - ✓C. Debit to Interest Receivable of \$1,600.
 - D. Debit to Cash of \$2,400.
-

Refer to the given 2023 Statement of Financial Position of SBS Transit to answer questions 26 – 29.
Use the consolidated numbers for the Group.

STATEMENTS OF FINANCIAL POSITION

AS AT 31 DECEMBER 2023

		Group			Company		
	Note	31 December 2023 \$'000	31 December 2022 \$'000 (Restated)	1 January 2022 \$'000 (Restated)	31 December 2023 \$'000	31 December 2022 \$'000 (Restated)	1 January 2022 \$'000 (Restated)
ASSETS							
Current assets							
Short-term deposits and bank balances	5	371,965	345,304	204,034	368,892	342,498	201,974
Trade and other receivables	6	304,478	261,132	253,372	211,403	184,930	490,545
Inventories	7	119,876	102,649	101,482	25,019	16,290	73,340
Total current assets		796,319	709,085	558,888	605,314	543,718	765,859
Non-current assets							
Subsidiaries	8	–	–	–	100,002	100,002	100,000
Prepayments	9	1,476	492	4,605	35	248	4,538
Due from subsidiaries	6	–	–	–	347,292	350,565	–
Net investment on sublease		–	–	28	–	–	28
Vehicles, premises and equipment	10	353,546	480,867	563,200	314,594	435,048	537,610
Deferred tax assets	11	20,855	20,750	27,065	–	–	–
Total non-current assets		375,877	502,109	594,898	761,923	885,863	642,176
Total assets		1,172,196	1,211,194	1,153,786	1,367,237	1,429,581	1,408,035
LIABILITIES AND EQUITY							
Current liabilities							
Lease liabilities	12	10,523	11,116	11,131	10,523	11,116	11,131
Trade and other payables	13	333,920	333,800	298,567	209,545	236,807	240,620
Deposits received	14	4,046	4,655	3,766	1,450	2,593	2,657
Provisions	16	16,079	16,465	16,075	14,674	13,213	16,075
Fuel price equalisation account		19,442	19,992	19,992	19,442	19,992	19,992
Income tax payable		28,293	36,259	33,879	28,275	36,259	33,879
Total current liabilities		412,303	422,287	383,410	283,909	319,980	324,354
Non-current liabilities							
Lease liabilities	12	8,787	68,005	80,481	8,787	68,005	80,481
Deferred grants	15	4,064	4,349	4,772	3,966	4,104	4,772
Deposits received	14	7,367	6,862	7,284	2,960	1,905	5,475
Deferred tax liabilities	11	22,424	26,621	42,589	22,424	26,621	42,589
Provisions	16	15,725	16,757	11,663	11,624	13,649	11,081
Fuel price equalisation account		19,442	19,992	19,992	19,442	18,892	19,992
Total non-current liabilities		77,809	142,586	166,781	69,203	133,176	164,390
Total liabilities		490,112	564,873	550,191	353,112	453,156	488,744
Capital and reserves							
Share capital	17	100,783	100,499	100,499	100,783	100,499	100,499
Other reserves	18	40,861	40,072	40,749	41,283	40,444	40,501
Accumulated profits		540,440	505,750	462,347	872,059	835,482	778,291
Total equity		682,084	646,321	603,595	1,014,125	976,425	919,291
Total liabilities and equity		1,172,196	1,211,194	1,153,786	1,367,237	1,429,581	1,408,035

The accompanying accounting policies and explanatory notes form an integral part of the Financial Statements.

If SBS Transit's Return on Assets (ROA) is 5.8%, what would be your best estimate of its Net Profit for 2023? (choose the closest answer expressed in thousands)

A. \$69,076
✓ B. \$69,118
C. \$67,987
D. \$70,249

ROA = Net Profit / Average Total Assets
5.8% = Net Profit / [(1,172,196 + 1,211,194)/2]
Net Profit = 1,191,695 * 5.8%
= 69,118

Question #: 27

What is SBS Transit's Debt Ratio for the year 2023? (round your answers to three decimal points)

A. 0.466
B. 0.179
C. 0.582
✓ D. 0.418

$$\begin{aligned}\text{Debt Ratio} &= \text{Total Liabilities} / \text{Total Assets} \\ &= 490,112 / 1,172,196 \\ &= 0.418\end{aligned}$$

Question #: 28

Assuming that the following error exists in SBS Transit's 2023 financial statements:

In 2023, SBS Transit had received cash from its customers as deposits, however it had recognized some of the deposits received as revenues instead. Which statement best describes the effect of this error on the 2023 debt ratio which you had calculated in the previous question?

- A. No effect on the 2023 debt ratio.
- B. The debt ratio is lower than what it should be because assets is overstated.
- C. The debt ratio is higher than what it should be because liabilities is overstated.
- ✓ D. The debt ratio is lower than what it should be because liabilities is understated.

Incorrect entry in the FS:

Dr. Cash	
Cr. Sales Revenues	→ overstates equity

Missing entry in the FS: Dr. Cash
Cr. Deposits → understates liabilities

Assuming the error exists, the 2023 FS has understated liabilities, and so the calculated 2023 debt ratio is lower than what it should be.

Assuming that the following error exists in SBS Transit's 2023 financial statements:

(Note that this is an independent scenario from the previous questions)

- Assuming the error exists, the 2023 FS has understated equity and understated assets.

Which of the following methods is LEAST likely to be used by companies to conduct fraud?

- A. Overstating Receivables
- ✓ B. Overstating Liabilities
- C. Creating Fictitious Invoices
- D. Not recording various expenses

END OF MOCK MIDTERM TEST 2