

ACC1701X ACCOUNTING FOR DECISION MAKERS
Semester 1, 2022/23

MOCK EXAM #2 – Answer Solutions
(with additional explanations for some questions)

MCQ:

Question #: 1

Ergo-Go Company's revenue from its customer, Acute Investments, is properly recognized:

- A. When Ergo-Go receives an order for 100 ergonomic chairs from Acute.
- ✓B. When Ergo-Go completes its sale to Acute by delivering the 100 chairs.
- C. When cash is received in advance from Acute for the order of the chairs.
- D. When cash is received from Acute in the next accounting period.

Question #: 2

Jasmine Co's retained earnings balance on Jan 1, 2021 is \$250,000, and its balance on Dec 31, 2021 is \$425,000. Jasmine Co declared \$95,000 in dividends for the year 2021. What is its net income for 2021?

- A. \$80,000
- ✓B. \$270,000
- C. \$330,000
- D. \$345,000

$$\text{End } 425k - \text{Beg } 250k + \text{Div } 95k = \text{NI } 270k$$

Question #: 3

During 2021, Wong & Chuck Company's assets increased \$95,500 and the liabilities decreased \$17,300. Wong & Chuck Company's shareholders' equity at December 31, 2021 was \$211,500. What was its shareholders' equity at January 1, 2021?

- ✓A. \$98,700
- B. \$324,300
- C. \$133,300
- D. \$289,700

$$\begin{aligned}\text{Change in equity for the period} &= 95.5k + 17.3k = 112.8k \\ \text{Beg equity} &= \text{End bal } 211.5k - 112.8k = 98.7k\end{aligned}$$

Question #: 4

Which of the following would result when BlackP Company lends cash to its business partner in exchange for a ten-month note receivable? BlackP is not in the business of loaning money.

- A. A noncurrent asset and an investing cash flow are created.
- B. A noncurrent asset and a financing cash flow are created.
- C. A current asset and a financing cash flow are created.
- ✓D. A current asset and an investing cash flow are created.

Question #: 5

Which of the following statements is false?

- A. The journal entry to record bad debt expense decreases current assets.
- B. The journal entry to record bad debt expense decreases retained earnings.
- ✓C. The journal entry to write-off an uncollectible account receivable decreases operating income.
- D. The journal entry to write-off an uncollectible account receivable does not affect current assets.

Question #: 6

PeterPang &Co estimates its bad debts using the aging of accounts receivable method. The following is the aged list of its unadjusted accounts receivables as at December 31, 2020.

	Number of days unpaid			
	0 - 30	31 - 60	61 -90	>90
Total Accounts Receivable (\$)	\$35,000	\$21,000	\$1,300	\$4,600
Estimated Uncollectible %	1%	10%	20%	30%

PeterPang &Co's unadjusted balance on its Allowance for Bad Debts account shows an *abnormal* balance of \$150. What adjusting entry should PeterPang &Co record to account for its bad debts?

- A. Debit Bad Debt Expense \$4,090; Credit Allowance for Bad Debts \$4,090.
- ✓B. Debit Bad Debt Expense \$4,240; Credit Allowance for Bad Debts \$4,240.
- C. Debit Bad Debt Expense \$3,940; Credit Allowance for Bad Debts \$3,940.
- D. No adjusting entry required for PeterPang &Co.

	Number of days unpaid			
	0 - 30	31 - 60	61 -90	>90
Total Accounts Receivable (\$)	\$35,000	\$21,000	\$1,300	\$4,600
Estimated Uncollectible %	1%	10%	20%	30%
Estimated Uncollectible	350	2,100	260	1,380

$$\text{Target Ending Allowance Balance} = 350 + 2,100 + 260 + 1,380 = 4,090$$

$$\text{Bad debt expense} = 4,090 + 150 = 4,240$$

Question #: 7

Majestic Line Company is reconciling its bank statement for the month of April using the following information:

Cash balance per Company books on April 30	\$ 8,750
Deposits in transit at month-end	\$ 980
Outstanding checks at month-end	\$ 2,105
Bank charges	\$ 30
Collection of payment from Majestic's customer by the bank on Majestic's behalf	\$ 560
NSF check from one of Majestic's customer	\$ 1,200

The adjusted cash balance per Majestic's books on April 30 is:

- A. \$9,355
- ✓B. \$8,080
- C. \$7,625
- D. \$7,520

Book Cash balance 8,750 – bank charges 30 + collection 560 – NSF check 1,200 = 8,080

Question #: 8

Which of the following demonstrates poor internal control procedure for Royal Rani Co?

- ✓A. Royal Rani's accounting staff makes cash deposits and records the journal entries related to cash, while the accounting manager prepares the bank reconciliation.
 - B. Royal Rani's finance controller, who does no bookkeeping, prepares the bank reconciliation each month.
 - C. Royal Rani's finance controller signs all checks after the accounting staff prepares the supporting documents and the accounting manager reviews it.
 - D. Royal Rani's sales staff prepares the cash deposits relating to sales and submits the deposit slips to the accounting staff, who records the sales collections into the accounting system.
-

Question #: 9

On April 26, AceX'am Company receives a \$9,000, 60-day, 6% note and \$2,000 in cash from its customer Cray Deet as part of converting Cray's accounts receivable to a note. When is the note due and how much in total should AceX'am collect on the due date?

- A. June 24th, \$7,090
- B. June 25th, \$7,090
- C. June 24th, \$9,090
- ✓D. June 25th, \$9,090

Days in April: 30 – 26 = 4 days

Days in May: 31 days

Days in June: 60 – 4 – 31 = 25 days → Due on June 25th.

Amount due: 9k + interest (9k x 6% x 60/360) = 9,090

Question #: 10

In general, which of the following statements is incorrect about i-Del Corporation?

A. i-Del's higher financial leverage involves higher risk.

B. i-Del's risk is higher if it has lower assets.

C. i-Del's risk is higher if it has more liabilities.

✓D. i-Del's creditors are concerned about i-Del's solvency as its debt ratio is extremely low

Question #: 11

At the beginning of 2019, the company's inventory level was stated correctly. At the end of 2019, inventory was understated by \$1,500. At the end of 2020, inventory was overstated by \$500. Reported net income was \$4,000 in 2019 and \$4,000 in 2020. What is the correct amount of net income in 2020?

A. \$3,000

B. \$6,000

✓C. \$2,000

D. \$5,000

2019 COGS overstated by 1.5k, NI understated by 1.5k

2020 beg inv understated by 1.5k, causing COGS to be understated by 1.5k.

2020 end inv overstated by 0.5k, causing COGS to be understated by 0.5k.

Total understatement of COGS in 2020 = 1.5k + 0.5k = 2k, NI is thus overstated by 2k.

Correct NI = reported NI 4k – 2k overstatement = 2k

Question #: 12

Use the following information relating to the inventory of Hozier Ltd during October to answer the question.

Oct.	1	Beginning inventory consisted of 8 game consoles costing \$200 each
	3	Purchased 12 game consoles costing S\$220 each
	14	Purchased 7 game consoles costing S\$230 each
	20	Purchased 15 game consoles costing S\$250 each
	29	Sold 26 game consoles for \$300 each

The 26 game consoles sold on October 29 consisted of the following: 4 game consoles from the beginning inventory, 5 game consoles purchased on October 3, 3 game consoles purchased on October 14, and 14 game consoles purchased on October 20.

What is the ending inventory balance on October 31 under the specific identification cost formula?

✓A. \$3,510

B. \$3,980

C. \$3,360

D. \$3,590

Question #: 13

Use the following information relating to the inventory of Hozier Ltd during October to answer the question.

Oct.	1	Beginning inventory consisted of 8 game consoles costing \$200 each
	3	Purchased 12 game consoles costing S\$220 each
	14	Purchased 7 game consoles costing S\$230 each
	20	Purchased 15 game consoles costing S\$250 each
	29	Sold 26 game consoles for \$300 each

The 26 game consoles sold on October 29 consisted of the following: 4 game consoles from the beginning inventory, 5 game consoles purchased on October 3, 3 game consoles purchased on October 14, and 14 game consoles purchased on October 20.

What is the cost of goods sold for October using the weighted average cost formula?

A. \$3,657

✓B. \$5,943

C. \$5,620

D. \$6,240

Question #: 14

The following information pertains to the ending inventory of Badfinger Ltd:

	Original Cost	Net Realisable Value
Item A	\$7,200	\$7,400
Item B	3,750	4,150
Item C	12,500	11,100
Item D	10,000	11,000
Item E	15,000	13,000

What is the total amount which should be reported as ending inventory on the balance sheet?

A. \$46,650

B. \$48,450

✓C. \$45,050

D. \$46,450

$$7,200 + 3,750 + 11,100 + 10,000 + 13,000 = 45,050$$

Question #: 15

DayBit Co sells 100 units of satellite radios in 2019 at \$5,000 each and provides a two-year warranty. The expected average repair costs per unit is \$200. Actual repair costs for warranty claims in 2019 amount to \$3,600 for 20 units. Estimated expected warranty expense is recorded at the end of the year as an adjusting entry. What is the amount that DayBit will charge as warranty expense in its income statement for 2019?

- A. \$3,600
- B. \$23,600
- ✓C. \$20,000
- D. \$18,000

Question #: 16

ThomasTrain Co has a warranty liability account on its balance sheet with a beginning credit balance of \$10,000. During the year, it sold 1,000 units of its product and provided a one-year warranty. Estimated warranty claims per unit is \$100. Actual warranty claims during the year amounted to a total of \$8,000. What is the ending balance in its warranty liability account?

- A. \$110,000
- B. \$18,000
- ✓C. \$102,000
- D. \$100,000

Beg 10k + warranty expense 100k – actual warranty claims 8k = 102k

Question #: 17

Use the following information on Stable Lifestyle Company to answer the question.

Stable Lifestyle Company shows the following information for the year ended 31st of December 2020:

- Net Profit for year 2020 was \$7,000
- Income Tax for the year 2020 was \$1,350
- Accounts receivable decreased by \$2,000
- Inventories increased by \$4,000
- Accounts payable decreased by \$7,000
- Income Tax payable increased by \$200
- Dividends Payable increased by \$4,000
- Depreciation expense included in net income was \$8,000.
- During the year, a piece of land held for future expansion was sold for its book value of \$8,000 in cash and a new service truck purchase of \$14,000 was fully financed through a loan.
- The company borrowed \$18,000 on a two-year note from the bank.
- Dividends of \$10,000 were declared during the year 2020.

Stable Lifestyle Company is preparing its statement of cash flows for the fiscal year 2020. What is the amount of cash flows from operating activities that Stable should record on its statement of cash flows, if the company wishes to maximise its operating cash flows?

- A. \$7,350
- ✓B. \$6,200
- C. \$6,000
- D. \$5,800

<i>PBT (7,000 + 1,350)</i>	<i>8,350</i>
<i>Depr Exp</i>	<i>8,000</i>
<i>AR decrease</i>	<i>2,000</i>
<i>Inventory increase</i>	<i>(4,000)</i>
<i>AP decrease</i>	<i>(7,000)</i>
<i>Cash paid for tax (1,350 – 200)</i>	<i>(1,150)</i>
<i>Cash flows from operating cash flow</i>	<i>6,200</i>

Question #: 18

Use the following information on Stable Lifestyle Company to answer the question.

Stable Lifestyle Company shows the following information for the year ended 31st of December 2020:

- Net Profit for year 2020 was \$7,000
- Income Tax for the year 2020 was \$1,350
- Accounts receivable decreased by \$2,000
- Inventories increased by \$4,000
- Accounts payable decreased by \$7,000
- Income Tax payable increased by \$200
- Dividends Payable increased by \$4,000
- Depreciation expense included in net income was \$8,000.
- During the year, a piece of land held for future expansion was sold for its book value of \$8,000 in cash and a new service truck purchase of \$14,000 was fully financed through a loan.
- The company borrowed \$18,000 on a two-year note from the bank.
- Dividends of \$10,000 were declared during the year 2020.

Stable Lifestyle Company is preparing its statement of cash flows for the fiscal year 2020. What is the total amount of cash flows from investing and financing activities?

✓A. \$20,000

B. \$16,000

C. \$22,000

D. \$12,000

Cash flow from investing = cash from asset disposal 8,000

Cash flow from financing = cash from loan 18,000 – dividends paid in cash (10,000 – 4,000)
= 12,000

Total cash flow from investing and financing = 8k + 12k = 20k

Question #: 19

Use the following information on Ariana Company to answer the question.

As of 1st of January 2020, the equity section of Ariana Company shows the following:

Preference shares (8%, 5,000 \$30 non-cumulative shares issued and outstanding)	\$150,000
Ordinary shares (20,000 no par value shares issued)	180,000
Treasury shares (3,000 ordinary shares at cost, \$10 per share)	(30,000)
Retained earnings	140,000
Total equity	\$440,000

During 2020, the following transactions happened:

- On 10th of January of 2020, Ariana Company reissued 1,200 treasury shares at \$12 each.

- On 2nd of May 2020, Ariana Company reissued 400 treasury shares at \$9 each.
- Ariana Company declared \$67,800 in total dividends in 2020. No dividends were declared in 2019.

What is the amount that Ariana Company should report on its equity section for its Treasury Shares account on 31st of December 2020?

- A. \$12,000
- B. \$14,400
- C. \$18,000
- ✓D. \$14,000

Jan transaction reduced treasury by \$12,000. May transaction reduced treasury by \$4,000
Ending Balance of Treasury = 30k – 12k – 4k = 14k

Question #: 20

Use the following information on Ariana Company to answer the question.

As of 1st of January 2020, the equity section of Ariana Company shows the following:

Preference shares (8%, 5,000 \$30 non-cumulative shares issued and outstanding)	\$150,000
Ordinary shares (20,000 no par value shares issued)	180,000
Treasury shares (3,000 ordinary shares at cost, \$10 per share)	(30,000)
Retained earnings	140,000
Total equity	\$440,000

During 2020, the following transactions happened:

- On 10th of January of 2020, Ariana Company reissued 1,200 treasury shares at \$12 each.
- On 2nd of May 2020, Ariana Company reissued 400 treasury shares at \$9 each.
- Ariana Company declared \$67,800 in total dividends in 2020. No dividends were declared in 2019.

Calculate the dividends per ordinary share in 2020 for Ariana Company (round your answer to 2 decimal places)?

- A. \$2.79
- B. \$3.39
- C. \$3.03
- ✓D. \$3.00

Preferred div 2020 = 8% x 5,000 x 30 = 12,000
Ordinary div 2020 = 67,800 – 12,000 = 55,800
Number of shares = 20,000 - 3,000 + 1,200 + 400 = 18,600
Div per share = \$55,800 / 18,600 shares = \$3 per share

ESSAY QUESTIONS

Essay Question #1:

Anando Company is on the June 30 fiscal year-end. The following shows the unadjusted and adjusted trial balances of Anando Company at its June 30, 2021 fiscal year end:

Accounts Titles	Unadjusted Trial Balance		Adjusted Trial Balance	
	Debits	Credits	Debits	Credits
Cash	33,200		33,200	
Accounts Receivable	46,250		45,450	
Allowance for Bad Debts		1,600		2,300
Merchandise Inventory	17,000		13,000	
Prepaid Expenses	6,800		5,300	
Property, Plant & Equipment	65,000		65,000	
Accumulated Depreciation		13,000		19,500
Accounts Payable		23,780		23,780
Salaries Payable		500		1,300
Unearned Revenue		15,000		7,000
Dividends Payable		800		3,800
Share Capital		100,000		100,000
Retained earnings		9,520		9,520
Sales Revenue		25,500		33,500
Cost of Goods Sold	11,350		15,350	
Salaries Expense	5,600		6,400	
General Admin Expense	1,700		1,700	
Rent Expense	1,650		3,150	
Depreciation Expense	-		6,500	
Bad Debt Expense	-		1,500	
Interest Expense	350		350	
Dividends	800		3,800	
Total	189,700	189,700	200,700	200,700

REQUIRED:

- 1) Present **ALL necessary journal entries** that were recorded by Anando Company on June 30, 2021, and the **closing journal entry for dividends only**. Date and explanations for journal entries are not required. Please number your journal entries.
- 2) Prepare a **Statement of Profit & Loss** for Anando Company for the 2021 fiscal year.
- 3) Compute the **(i) current ratio (ii) gross margin ratio (iii) times interest earned ratio** of Anando Company for the fiscal year of 2021. Show your workings and round to 2 decimal places.

Answer Solution to Part 1:

<u>Adjusting Journal Entries</u>		Debit	Credit
1	Unearned Revenue	8,000	
	Sales Revenue		8,000
2	Cost of Goods Sold	4,000	
	Merchandise Inventory		4,000
3	Rent Expense	1,500	
	Prepaid Expenses		1,500
4	Depreciation Expense	6,500	
	Accumulated Depreciation		6,500
5	Salaries Expense	800	
	Salaries Payable		800
6	Bad Debt Expense	1,500	
	Allowance for Doubtful Accounts		1,500
7	Allowance for Doubtful Accounts	800	
	Accounts Receivable		800
8	Dividends	3,000	
	Dividends Payable		3,000
 <u>Closing Entry for dividends</u>			
9	Retained Earnings	3,800	
	Dividends		3,800

Answer Solution to Part 2:

**Anando Company
Statement of Profit & Loss
For the Year Ended 30 June 2021**

Sales Revenue	\$33,500
Cost of Goods Sold	15,350
Gross Profit	18,150
Operating Expenses:	
Salaries Expense	6,400
General Admin Expense	1,700
Rent Expense	3,150
Depreciation Expense	6,500
Bad Debt Expense	1,500
Total Operating Expenses	19,250
Operating Income	(1,100)
Interest Expense	350
Net Loss	\$(1,450)

Answer Solution to Part 3:

- (i) Current Ratio = $94,650 / 35,880 = 2.64$
- (ii) Gross Margin Ratio = $18,150 / 33,500 = 0.54$ (OR 54.18%)
- (iii) Times Interest Earned Ratio = $-1,100 / 350 = -3.14$

Essay Question #2:

Rubble Ltd is a trucking company that moves construction materials for various construction companies. It currently has 25 trucks. The following information relates to a **single** truck:

(a) Truck was purchased for cash on July 1, 2017.

(b) Cost of truck:

Invoice cost (before sales tax)	\$140,000
Paint job to change to company colors and insert logo	\$5,000
Sales tax	\$12,000

(c) Estimated useful life of truck is 120,000 miles

(d) Estimated salvage value of truck is \$25,000

(e) Rubble Ltd uses the units-of-production depreciation method

(f) Rubble incurred the following expenditures on the truck in 2019:

- i. Spent \$6,000 in cash on new tires and regular maintenance work on the truck
- ii. On 1st of January 2019, Rubble spent \$46,750 in cash to completely rework the truck's engine which increased the total life to 200,000 miles. The expected salvage value remains unchanged

(g) Miles driven:

2017	11,000
2018	24,000
2019 (after reworking of engine)	20,000
2020	14,000

(h) Sold the truck for cash on December 31, 2020 for \$120,000

REQUIRED:

- 1) Record **journal entries** for the **expenditures on the truck during 2019** (refer to part (f) above) . Date and explanations for journal entries are not required.
- 2) Compute the **depreciation expense for 2017, 2018, 2019 and 2020**. Show your workings.
- 3) Record the **journal entry for the disposal of the truck** on December 31, 2020. Show your workings. Date and explanations for journal entries are not required.

Answer Solution to Essay #2:

Part 1:

Dr Repairs and Maintenance Expense	\$6,000	
Cr Cash		\$6,000
Dr Truck	\$46,750	
Cr Cash		\$46,750

Part 2:

Computation of initial depreciation expense

Depreciation per mile = $(\$157,000 - \$25,000)/120,000 = \$1.10/\text{mile}$

Depreciation expense for 2017 = \$12,100 (11,000 miles x \$1.10)

Depreciation expense for 2018 = \$26,400 (24,000 miles x \$1.10)

Computation of revised depreciation expense from 2019

Carrying amount at beginning of 2019 = $\$157,000 - \$12,100 - \$26,400 = \$118,500$

Revised depreciable amount = $(\$118,500 + \$46,750) - \$25,000$
 = \$140,250
Revised depreciation per mile = $\$140,250/165,000$
 = \$0.85/mile

Depreciation expense for 2019 = \$17,000 (20,000 miles x \$0.85)

Depreciation expense for 2020 = \$11,900 (14,000 miles x \$0.85)

Part 3:

Total cost = $\$157,000 + \$46,750 = \$203,750$

Accumulated depreciation = $\$12,100 + \$26,400 + \$17,000 + \$11,900 = \$67,400$

Book value = \$136,350

Disposal value = \$120,000

Loss on sale of truck = \$16,350

Journal entry for disposal

Dr Cash	\$120,000	
Dr Accumulated depreciation	\$67,400	
Dr Loss on sale of truck	\$16,350	
Cr Truck		\$203,750