

AY2223 SEM1  
ACC1701X Mock Midterm Test

**ANSWER SOLUTION**

\*UPDATED SEPT 21, 2022 (Refer to Q#16)\*

\*UPDATED SEPT 21, 2022 (Refer to Q#5, 23)\*

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**Question #: 1**

Holly Co's total sales revenue for the year of 2022 is \$250,000 and its cost of goods sold is \$85,000. Its Net Profit Margin calculated at year end is 12.3%. If its average total assets for the year is \$384,375, what is Holly's ROA (Return on Assets) ratio for the year?

- A. 14.1%
- B. 5.3%
- C. 10.7%
- ✓D. 8.0%

**Answer Solution:**

*Net Income = Net sales 250,000 x Net Profit Margin 12.3% = 30,750*

*ROA = 30,750 / 384,375 = 0.08*

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**Question #: 2**

Blake Co. provided \$5,000 of consulting services to Simmons Co. for which they have not yet received payment. When Blake billed Simmons for the consulting services, Blake mistakenly journalized and posted the transaction as a \$5,000 debit to Accounts Receivable and a \$5,000 credit to Unearned Consulting Fees. The entry Blake needs to make to correct this error is

- ✓A. Debit Unearned Consulting Fees Revenue and credit Consulting Fees Revenue for \$5,000
- B. Debit Unearned Consulting Fees Revenue and credit Accounts Receivable for \$5,000
- C. Debit Consulting Fees Revenue and credit Accounts Receivable for \$5,000
- D. Debit Consulting Fees Revenue and credit Unearned Consulting Fees Revenue for \$5,000

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**Question #: 3**

Which of the following is the correct way to date a statement of profit and loss?

- ✓A. For the Year Ended December 31, 2022
  - B. At December 31, 2022
  - C. As of December 31, 2022
  - D. For the period December 31, 2022
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**Question #: 4**

The beginning balance of retained earnings will be greater than the ending balance if

- A. The company has a net income greater than dividends paid
- B. The company issues additional shares of stock during the period
- ✓C. The company has a net income less than dividends paid
- D. The revenues earned for the period are greater than the expenses incurred and dividends paid

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**Question #: 5**

The transactions carried out by Clear Waters Corporation during the year caused an increase in total assets of \$51,300 and a decrease in total liabilities of \$24,500. If no additional stock was issued during the year and dividends of \$15,700 were paid, what was the net income for the year?

- A. \$53,600
- ✓B. \$91,500
- C. \$58,200
- D. \$26,800

**Answer Explanation:**

$$\begin{aligned}\text{Equity Increase in Equity} &= \text{Assets} - \text{Liabilities} \\ &= \$51,300 - (-\$24,500) \\ &= \$75,800\end{aligned}$$

$$\begin{aligned}\text{Net income} &= \text{Change in Equity} + \text{Dividends} \\ &= \$75,800 + \$15,700 \\ &= \$91,500\end{aligned}$$

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**Question #: 6**

On August 3, Barkbull Inc. provided services for \$1,000 cash and \$2,000 on credit. The correct entry to record the services on August 3 is

- A. Dr Cash 3,000  
    Cr Service Revenue 3,000
- ✓B. Dr Cash 1,000  
    Dr Accounts Receivable 2,000  
    Cr Service Revenue 3,000
- C. Dr Accounts Receivable 3,000  
    Cr Service Revenue 3,000
- D. Dr Cash 1,000  
    Dr Accounts Receivable 2,000  
    Cr Unearned Revenue 3,000

**Question #: 7**

Which of the following would cause a trial balance to be out of balance?

- A. A transaction was recorded twice
- ✓B. Only the debit of a transaction was recorded
- C. A transaction was not recorded
- D. A transaction was posted to the wrong account

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**Question #: 8**

On December 31, 2021, the balance in the Retained Earnings account is \$18,500. On December 31, 2022, the balance of Retained Earnings is \$17,100. During 2022, dividends of \$4,200 were declared and paid. Based on this information, net income for 2022 is

- ✓A. \$2,800
- B. \$7,000
- C. \$2,100
- D. \$4,200

**Answer Explanation:**

*Beg RE \$18,500 + NI - Dividends \$4,200 = End RE \$17,100*  
*NI = \$17,100 - \$18,500 + \$4,200 = \$2,800*

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**Question #: 9**

BlueRose Company has the following information for 2022:

Service revenue	\$630,000
Interest revenue	21,000
Unearned revenue	10,000
Rent expense	126,000
Utilities expense	42,000
Salaries expense	480,000
Interest expense	10,500
Dividends	3,000

Given the information above, the entry to close revenues and expenses would include a

- A. Credit to Retained Earnings of \$7,500
- ✓B. Debit to Retained Earnings of \$7,500
- C. Credit to Retained Earnings of \$2,500
- D. Debit to Retained Earnings of \$3,000

**Answer Explanation:**

*Service Rev                      \$630,000*  
*Interest Revenue              \$21,000*  
*Less:*  
*Rent Expense                  \$126,000*  
*Utilities Expense              \$42,000*

<i>Salaries Expense</i>	<i>\$480,000</i>
<i>Interest Expense</i>	<i><u>\$10,500</u></i>
<i>Net Loss</i>	<i><u>\$7,500</u></i>

*A net loss results in a reduction in retained earnings (equity), therefore it is a Debit entry to RE.*

**Question #: 10**

The following are a selection of account balances taken from the Adjusted Trial Balance of Cajon Corporation for December 31, 2022.

Account	Debit	Credit
Cash	150	-
Store Supplies	300	-
Service Fees Revenue	-	600
Retained Earnings (1/1/22)	-	50
Accounts Payable	-	70
Dividends	200	-
Unearned Service Fees Revenue	-	180
Wage Expense	200	-
Store Supplies Expense	50	-

Given the information above, Cajon Corporation had net income in 2022 of

- A. \$150
- B. \$530
- C. \$330
- ✓D. \$350

**Answer Explanation:**

*Net income: rev \$600 – wage exp \$200 – supplies exp \$50 = \$350*

**Question #: 11**

The following are a selection of account balances taken from the Adjusted Trial Balance of Cajon Corporation for December 31, 2022.

Account	Debit	Credit
Cash	150	-
Store Supplies	300	-
Service Fees Revenue	-	600
Retained Earnings (1/1/22)	-	50
Accounts Payable	-	70
Dividends	200	-
Unearned Service Fees Revenue	-	180
Wage Expense	200	-
Store Supplies Expense	50	-

Given the information above, what is the amount of total assets on Cajon Corporation's balance sheet in 2022?

- A. \$150
- B. \$300

- ✓C. \$450
- D. \$650

**Answer Explanation:**

*Total assets: cash \$150 + supplies \$300 = \$450*

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**Question #: 12**

The failure to adjust an unearned revenue that has been partially earned and was originally recorded as a credit to Unearned Revenue will usually result in an

- A. Overstatement of revenues and an overstatement of liabilities
  - B. Overstatement of revenues and an understatement of liabilities
  - C. Understatement of revenues and an understatement of liabilities
  - ✓D. Understatement of revenues and an overstatement of liabilities
- 

**Question #: 13**

From the following data, determine the amount of rent revenue earned during the period.

Unearned Rent, end of period is \$20,300

Unearned Rent, beginning of period is \$15,200

Cash received during the period for next period's rent is \$40,700

- A. \$20,400
- ✓B. \$35,600
- C. \$30,400
- D. \$55,900

**Answer Explanation:**

*Rent revenue earned during the period:*

*Beg \$15,200 + advanced payment \$40,700 – ending \$20,300 = \$35,600*

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**Question #: 14**

Bay Graphics pays its employees each Friday for a five-day total workweek. The payroll is \$9,000 per week. If the end of the accounting period occurs on a Wednesday, the adjusting entry to record wages payable would include a

- A. Debit to Salaries Expense of \$3,600
- ✓B. Debit to Salaries Expense of \$5,400
- C. Credit to Cash of \$5,400
- D. Credit to Salaries Payable of \$3,600

**Answer Explanation:**

*Wages payable: \$9,000 x 3/5 = \$5,400*

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**Question #: 15**

Which of the following will occur if an adjusting entry to record an accrued but unrecorded liability is NOT made?

- ✓A. Both expenses and liabilities will be understated.
  - B. Both expenses and liabilities will be overstated.
  - C. Expenses will be understated, but liabilities will be overstated.
  - D. Liabilities will be understated, but expenses will be overstated.
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**Question #: 16**

If rent revenue is earned in 2022 but will NOT be received until ~~2022~~ 2023, what is the appropriate adjusting entry at December 31, 2022?

- A. Dr Rent Receivable, Cr Cash
  - B. Dr Cash, Cr Rent Revenue
  - C. Dr Rent Revenue, Cr Rent Receivable
  - ✓D. Dr Rent Receivable, Cr Rent Revenue
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**Question #: 17**

At the beginning of the period, Krishnan Corporation had \$8,000 of supplies on hand. During the period, it purchased \$2,600 of supplies and debited Supplies for the same amount. At the end of the period, Krishnan Corporation prepared adjusting entries by debiting Supplies Expense and crediting Supplies both with the amount of \$8,600.

How much of supplies was still on hand at the end of the period?

- ✓A. \$2,000
- B. \$2,600
- C. \$3,200
- D. \$19,200

**Answer Explanation:**

*Supplies on hand: Beg \$8,000 + Purchases \$2,600 – Used \$8,600 = Ending \$2,000*

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**Question #: 18**

During 2022, Rumbo Corporation had cash and credit sales of \$21,760 and \$15,225, respectively. The company also collected accounts receivable of \$9,765 and incurred operating expenses of \$27,700, 80 percent of which were paid during the year. In addition, Rumbo paid \$4,500 for an 18-month advertising campaign that began on September 30.

Rumbo's cash-basis net income (loss) for 2022 was

- ✓A. \$4,865
- B. \$3,825
- C. \$(675)
- D. \$(400)

Answer Explanation:

cash sales	\$21,760
collections	\$9,765
– operating exp	(\$22,160)*
– advertising exp	<u>(\$4,500)</u>
Net Income	<u>\$4,865</u>

$*\$27,700 \times 80\% = 22,160$

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**Question #: 19**

During 2022, Rumbo Corporation had cash and credit sales of \$21,760 and \$15,225, respectively. The company also collected accounts receivable of \$9,765 and incurred operating expenses of \$27,700, 80 percent of which were paid during the year. In addition, Rumbo paid \$4,500 for an 18-month advertising campaign that began on September 30.

Rumbo's accrual-basis net income (loss) for 2022 was

- A. \$9,285
- ✓B. \$8,535
- C. \$14,075
- D. \$(775)

Answer Explanation:

cash sales	\$21,760
+ credit sales	\$15,225
– operating exp	(\$27,700)
– advertising exp	<u>(\$750)*</u>
Net Income	<u>\$8,535</u>

$*\$4,500 \times 3/18 = \$750$

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**Question #: 20**

Which one of the following errors causes net income to be overstated?

- A. Failure to record collection of an account receivable
- ✓B. Failure to record depreciation expense
- C. Failure to accrue revenue earned but not yet collected payment
- D. Failure to record service fees received in advance

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**Question #: 21**

Which of the following is an example of an adequate segregation of duties?

- A. Every year, Doug is required to take one full week of vacation time.
- ✓B. Greg is in charge of recording receipt of payments made to accounts receivable, while Susan is in charge of making deposits to the bank.
- C. Every evening, Shellie makes a back-up file of all transactions recorded in the computer that day, burns the

back-up file onto a CD and then locks the CD into a fire-proof vault for the night.

D. John, a clerk, is authorized to perform transactions as large as \$5,000 but must maintain authorization from Andrea to perform larger transactions.

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**Question #: 22**

If insurance for 2022 is paid in advance during 2021 but is mistakenly debited to Insurance Expense in 2021,

- A. Net income for 2021 will be overstated
- B. There will be no error in 2021 net income
- ✓C. Net income for 2021 will be understated
- D. The answer cannot be determined from the information given

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**Question #: 23**

Ward 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	Probability of Collection
0 - 31 days	\$500,000	98%
31- 60 days	\$200,000	90%
Over 60 days	\$100,000	80%

The following additional information is available for the current year:

Net credit sales for the year is \$4,000,000

Loss allowance at January 1 is \$26,000 (normal balance)

Loss allowance at Dec 31 before adjustment is \$20,000 (normal balance)

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

- A. \$24,000
- B. \$25,000
- ✓C. \$30,000
- D. \$50,000

**Answer Explanation:**

**Estimated Uncollectible from Aging Analysis :**

$$(\$500,000 \times .02) + (\$200,000 \times .10) + (\$100,000 \times .20) = \$50,000$$

**Expected credit loss:**

$$\text{Ending Loss Allowance } \$50,000 - \text{Beg Unadjusted Loss Allowance } \$20,000 = \$30,000$$

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**Question #: 24**

Ward 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	Probability of Collection
0 - 31 days	\$500,000	98%



No. of Days Outstanding	Amount	Probability of Collection
31- 60 days	\$200,000	90%
Over 60 days	\$100,000	80%

The following additional information is available for the current year:

Net credit sales for the year is \$4,000,000

Loss allowance at January 1 is \$26,000 (normal balance)

Loss allowance at Dec 31 before adjustment is \$20,000 (normal balance)

What is your best estimate of the amount of accounts receivable written off during the current year ending December 31?

- ✓A. \$6,000
- B. \$10,000
- C. \$24,000
- D. There is no write offs during the current year.

**Answer Explanation:**

**Beg Loss Allowance \$26,000 – Unadjusted Loss Allowance \$20,000 = \$6,000**

**Question #: 25**

On October 1, 2022, Ursula Company accepted an \$100,000, 9 month, 5% note from its supplier Ariel Corporation. Which of the following entry will be part of Ursula's journal entry to record the collection of payment on the note on July 1, 2023? (Choose the closest answer)

- A. Credit to Notes Receivable of \$105,000.
- B. Credit to Interest Income of \$3,750
- ✓C. Credit to Interest Receivable of \$1,250.
- D. Debit to Interest Income of \$2,500.

**Answer Explanation:**

**Accrued Interest @ Dec 31 = \$100k x 5% x3/12 = 1,250**

<b>Entry @ Dec 31:</b>	<b>Dr Interest Receivable</b>	<b>1,250</b>
	<b>Cr Interest income</b>	<b>1,250</b>
<b>Entry @ July 1:</b>	<b>Dr Cash</b>	<b>103,750</b>
	<b>Cr Notes Receivable</b>	<b>100,000</b>
	<b>Cr Interest Receivable</b>	<b>1,250</b>
	<b>Cr Interest Income</b>	<b>2,500</b>

**END OF MOCK MIDTERM TEST**