



# Automatic Tutoring

Advanced Tutoring and Exam Preparation for Accounting

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Mock Exam: ACG2021 Exam 1  
Introduction to Financial Accounting

Good luck!



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1. An investor invests in land in exchange for common stock. The land has a fair market value of \$125,000 and a mortgage of \$75,000 (the business is taking on the mortgage). What is the effect of the investment on the accounting equation?

- A) Increase assets by \$125,000 and increase liabilities by \$125,000.
- B) Increase assets by \$50,000 and increase liabilities by \$50,000.
- C) Increase assets by \$125,000 and increase liabilities by \$75,000 and increase stockholders' equity by \$50,000.
- D) Increase assets by \$125,000 and increase stockholders' equity by \$125,000.
- E) None of the above

2. The closing entry for an expense account would include a debit to:

- A) The expense, and a credit to net income.
- B) Retained earnings, and a credit to the expense.
- C) Net Income, and a credit to the expense.
- D) The expense, and a credit to Retained Earnings
- E) None of the above



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3. Which account has a normal debit balance

- A) Rent expense
- B) Service Revenue
- C) Taxes payable
- D) Common stock
- E) Unearned Revenue

4. Which of the following errors would a trial balance find for a company:

- A) A sale occurred for \$1,000 and instead of debiting cash and crediting sales for \$1,000, cash was credited, and sales was debited both for \$5,000
- B) A sale was made for \$4,000 and instead of debiting cash and crediting sales for \$4,000, cash was debited for \$750 and sales was credited for \$7,500
- C) A sale was made for \$1 and instead of debiting cash for \$1 accounts payable was debited for \$1
- D) A sale was made for \$5 cash and instead of debiting cash for \$5 accounts receivable was debited for \$5
- E) None the above would be discovered in a trial balance



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5. JJ's Tavern started the year with \$100 of supplies. During the year, the company purchased an additional \$1,000 of supplies on account. There were \$200 of supplies on hand at the end of the year. An adjusting entry at the end of the period would include a:

- A) Credit to the supplies for \$1,100.
- B) Debit to supplies expense for \$900.
- C) Credit to supplies expense for \$900.
- D) Debit to supplies for \$1,100.
- E) None of the above.

6. On September 1st of the current year, a company received \$1,000 for services to be performed evenly over the next ten months. If no adjusting entry was made at the end of this year:

- A) net income would be understated by \$1,000.
- B) net income would be understated by \$400.
- C) net income would be overstated by \$400.
- D) net income would be overstated by \$1000.
- E) None of the above.



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7. You have sales revenue for the year of \$100,000, trade discounts of \$20,000, purchase discounts of \$15,000, and sales discounts of \$10,000. What is your net revenue?

- A) \$100,000
- B) \$80,000
- C) \$90,000
- D) \$85,000

8. To write off an uncollectible account using the direct write-off method includes:

- A) Debit to Accounts Receivable.
- B) Debit to Allowance for Uncollectible Accounts.
- C) Credit to Allowance for Uncollectible Accounts.
- D) Debit to Uncollectible Accounts Expense.
- E) No entry is required.



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9. The rules for recording accounting transactions include all the following EXCEPT.

- A) Total assets must always equal total liabilities plus total equity.
- B) Both sides of the accounting equation must be affected.
- C) Every business transaction affects the financial statement of the business.
- D) Every business transaction's net amount on the left side of the equation must equal the net amount on the right side of the equation.
- E) All of the above are true statements.

10. On December 1st Smoothie Prince sold smoothies with a selling price of \$6,000 on account to a customer, with terms 5/10, n/30. On December 5th, the customer returned a smoothie with a selling price of \$500. The customer paid the amount due on December 7 and would include an entry to:

- A) Debit sales returns for \$500.
- B) Credit accounts receivable for \$6,000.
- C) Debit cash for \$5,225.
- D) Credit sales revenue for \$5,225.
- E) None of the above.



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11. In 2010 Downtown Fats purchased a building for \$200,000. In 2010, a real estate professional says the building has a fair value of \$1,000,000, and in 2010 a similar building down the street recently sold for \$900,000. What value (before consideration of accumulated depreciation) is reported on the balance sheet on December 31, 2010, regarding this building?

- A) \$600,000.
- B) \$900,000.
- C) \$550,000.
- D) \$1,000,000.
- E) \$200,000.

12. Revenue was \$325,000, expenses were \$175,000 and cash dividends were \$55,000. What is the net income and the change in retained earnings for the period?

- A) Net income was \$95,000 and the change in retained earnings was \$95,000.
- B) Net income was \$150,000 and the change in retained earnings was \$95,000.
- C) Net income was \$150,000 and the change in retained earnings was \$150,000.
- D) Net income was \$150,000 and the change in retained earnings was \$120,000.
- E) Net income was \$95,000 the change in retained earnings cannot be determined with the information given.



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13. At the end of the year, JJ's Tavern has a credit balance in their Allowance for Doubtful Accounts of \$10,000. If JJ's Tavern uses the percent of credit sales method and has \$100,000 of credit sales this year, estimating 8% total will not be collected, how much will the ending credit balance be after Bad Debt Expense is recorded?

- A) \$10,000
- B) \$8,000
- C) \$18,000
- D) \$2,000
- E) None of the above

14. On October 1<sup>st</sup>, 2010, Downtown Fats signed a \$500,000 8 month 5% note payable and the principal and interest will be paid at the maturity date. Calculate the amount of interest expense that Downtown Fats should report on its income statement for that year ended December 31<sup>st</sup>, 2011, for this note. (Round to the nearest dollar)

- A) \$6,250
- B) \$25,000
- C) \$10,417
- D) \$6,500
- E) None of the above





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15. On October 1st Oak Gainesville paid eight months Insurance in advance totaling \$8,000. An adjusted trial balance prepared on December 31st would include a balance in the prepaid Insurance account of:

- A) \$0
- B) \$5,000
- C) \$3,000.
- D) \$2,000.
- E) None of the above.

16. Which financial statements would include a line for Net Income?

- A) Income Statement
- B) Statement of Stockholders' Equity
- C) Balance Sheet
- D) All of the above
- E) A & B

17. Which of the following account would appear on the balance sheet?

- A) Sales Revenue
- B) Rent Expense
- C) Dividends
- D) Prepaid Expense
- E) None of the above



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18. Oaks Downtown begins the year with \$10,000 worth of mimosa Inventory. Throughout the year, they incurred \$75,000 in Cost of Goods Sold, spent \$25,000 on customer related expenses, used \$75,000 worth of their mimosa Inventory, and recorded mimosa revenue of \$200,000. If Oak Downtown ends the year with \$5,000 of mimosa inventory, how much mimosa inventory did they purchase throughout the year?

19. You are trying to calculate how much uncollectible expense to record for the year 2020. Your company uses the aging method, and you are told that \$100,000 of receivables are outstanding and were due within the last 60 days, \$25,000 of receivables are outstanding and were due longer than 60 days ago, and your allowance for doubtful accounts has a debit balance of \$10,000. If they company estimates that 3% of receivables due less than 60 days will not be collected and 10% of receivables due longer than 60 days will not be collected, and they recorded \$200,000 in credit sales throughout the year, what will you record for uncollectible expense for the year?



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20. How do you calculate Gross Profit?

- A) Sales Revenue – Operating Expenses
- B) Sales Revenue + Operating Expenses
- C) Sales Revenue – Bad Debt Expense
- D) Sales Revenue – Cost of Goods Sold
- E) None of the Above

21. If the entry to record sales on account is not posted:

- A) Stockholders Equity will be overstated.
- B) Assets will be understated.
- C) Assets will be overstated.
- D) Liabilities will be understated.
- E) There will be no effect on the company's financial position.



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22. Which financial statement would an investor look at to determine if a company is selling its products or services?

- A) Balance sheet.
- B) Income statement.
- C) Statement of cash flows.
- D) Statement of retained earnings.
- E) Both B and C.

23. An adjusting entry contains a debit to a liability account and a credit to a revenue account this is an example of a(n):

- A) Deferred revenue.
- B) Deferred expense.
- C) Accrued Revenue.
- D) Accrued expense.
- E) None of the above.



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24. A company performs services for a client account. When the company receives the cash from the customer one month later:

- A) An expense account is decreased.
- B) A revenue account is increased.
- C) There is no change in total assets.
- D) A liability account is decreased.
- E) None of the above.

25. RIP Tatu Inc. began the year with total Stockholders' Equity of \$50,000 and total assets of \$150,000. During the year, total assets increased by 20% and total liabilities decreased by 10%. How much is total Stockholders' Equity at the end of the year?



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26. Swamp Inc. earned revenue of \$170,000 in cash and \$250,000 on account during 2010. Of the \$250,000 on account, \$85,000 was collected in cash in 2010 and the rest in 2011. The company incurred expenses of \$105,000 in 2010 and made payments of \$60,000 towards the expenses in 2010 the rest will be paid in 2011. What is their net income in 2010 under accrual accounting?

27. The following account balances were extracted from the accounting records of a company at the end of 2020:

Account Name	Balance
Accounts Receivable	\$167,500
Allowance for Doubtful Accounts (credit)	\$5,225
Uncollectible expense	\$7,500

What is the net realizable value of the accounts receivable?



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28. Portia Incorporated uses the percent of sales method to estimate uncollectible. Net credit sales for the current year amount to 1 million dollars and management estimates 5% will be uncollectible. Allowance for the uncollectible accounts prior to adjustment has a debit balance of \$15,000. The ending credit balance in allowance for uncollectible accounts will be:

29. Marston Library pays its employees every Friday. Marston employees earn \$100,000 each 5 days of work. Assuming December 31<sup>st</sup>, 2020, falls on a Tuesday and all salaries have paid in cash up to the last week of the year, what is the amount of salaries payable that Marston Library should report on its December 31<sup>st</sup>, 2020, balance sheet:



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30. Automatic Inc. is founded on 7/15/2021. During 2021, they earn \$750,000 of Revenue and incur \$250,000 of expenses. Automatic Inc. also distributed \$50,000 of dividends, issued \$20,000 of additional stock, and has an ending cash balance of \$250,000 in 2021. Based on this information, what is Automatic Inc.'s ending balance in retained earnings on December 31st, 2021?

**GOOD LUCK ON THE EXAM!**





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**Solutions:**

1. C
2. B
3. A
4. B
5. B
6. B
7. C
8. D
9. B
10. C
11. E
12. B
13. C
14. C
15. B
16. E
17. D
18. \$70,000
19. \$15,500
20. D
21. B
22. B
23. A
24. C
25. \$90,000
26. \$315,000
27. \$162,275
28. \$35,000
29. \$40,000
30. \$450,000