

# AIPB Mastering Correction of Accounting Errors Practice Test (Sample)

## Study Guide



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**SAMPLE**

## **Questions**

- 1. What is the normal balance of the Allowance for Doubtful Accounts?**
  - A. Has a normal debit balance**
  - B. Has a normal credit balance**
  - C. Appears only on the post-closing trial balance**
  - D. Any of the above**
- 2. What is the reason for needing to record an adjusting entry for 20X0?**
  - A. An expense account is involved**
  - B. No error was made recording the note payable on July 1, 20X0**
  - C. An accrual is involved rather than a deferral**
  - D. The books have not been closed**
- 3. When analyzing a trail balance, what could be indicated by an account balance appearing in the wrong column?**
  - A. External auditing**
  - B. Suspended transactions**
  - C. An error or a contra account**
  - D. Normal adjustment**
- 4. What is the correcting entry for Advertising Expense related to an expense incurred but recorded in the wrong year?**
  - A. A net debit to Advertising Expense of \$50,000**
  - B. A net credit to Advertising Expense of \$40,000**
  - C. A net credit to Advertising Expense of \$90,000**
  - D. A net credit to Advertising Expense of \$140,000**
- 5. What does NSF stand for in relation to checks?**
  - A. Non-Standard Funding**
  - B. Non-Sufficient Funds**
  - C. Notable Service Fee**
  - D. National Savings Fund**

- 6. What type of entry is necessary for recognizing deferred revenue?**
- A. The ledger Cash account balance**
  - B. Deferred revenue adjustment**
  - C. Correction of the expense accrual**
  - D. Accrual of expense**
- 7. At the year-end, if a physical count reveals that office supplies worth \$7,000 were used but no entry was made, what will be the likely issue?**
- A. The trial balance would be out of balance by \$7,000**
  - B. The trial balance would be out of balance by \$14,000**
  - C. The trial balance would be out of balance by \$3,500**
  - D. None of the above**
- 8. When reconciling cash, which of the following is not a type of incoming credit?**
- A. Interest earned**
  - B. Bank errors**
  - C. Funds wired into the account**
  - D. Notes collected by the bank**
- 9. Which of the following should be included as a bank error adjustment?**
- A. A deposit that was recorded incorrectly**
  - B. A transfer from one account to another**
  - C. A correctly processed payment**
  - D. A delayed check clearance**
- 10. What adjustment is necessary when an insurance payment is made but no entry is recorded?**
- A. Debit Insurance Expense for \$3,000**
  - B. Credit Insurance Expense for \$3,000**
  - C. Debit Insurance Expense for \$1,500**
  - D. Debit Prepaid Insurance for \$1,500**

## **Answers**

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1. B
2. D
3. C
4. B
5. B
6. B
7. D
8. B
9. A
10. C

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## **Explanations**

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**1. What is the normal balance of the Allowance for Doubtful Accounts?**

- A. Has a normal debit balance**
- B. Has a normal credit balance**
- C. Appears only on the post-closing trial balance**
- D. Any of the above**

The Allowance for Doubtful Accounts has a normal credit balance because it is a contra asset account. This account is used to estimate the amount of accounts receivable that may not be collectible, effectively offsetting the total accounts receivable balance on the balance sheet. This normal credit balance reflects the nature of the account as it reduces the total assets reported. When an adjustment is needed to account for potential bad debts, the allowance increases (credited) and this estimate assists in presenting a more accurate picture of the company's financial position. It is not common for this account to reflect a debit balance, nor is it limited to appearing solely on the post-closing trial balance; rather, it appears in both the adjusted trial balance and the financial statements to provide transparency regarding the risks associated with receivables.

**2. What is the reason for needing to record an adjusting entry for 20X0?**

- A. An expense account is involved**
- B. No error was made recording the note payable on July 1, 20X0**
- C. An accrual is involved rather than a deferral**
- D. The books have not been closed**

The need to record an adjusting entry typically arises to ensure that financial statements reflect the true financial position and performance of a business at the end of a reporting period. In this case, the correct answer indicates that the books have not been closed, which suggests that there are transactions or adjustments that have not been finalized before the financial reports are issued. Adjusting entries are crucial for recognizing revenues earned and expenses incurred within the correct accounting period, and they often occur just before closing the books. This action allows for accurate representations in the financial statements, ensuring compliance with the accrual basis of accounting. In contrast, if there was no error recorded in the note payable, it would not necessitate an adjusting entry, as the original entry was made correctly. The mention of an expense account could imply a potential adjustment, but it does not directly address the need for adjustments if the primary issue is the closing of books. Likewise, stating that an accrual is involved rather than a deferral might point toward a specific type of adjustment, but it does not fully encapsulate the overall need for an adjustment at this stage.

**3. When analyzing a trial balance, what could be indicated by an account balance appearing in the wrong column?**

- A. External auditing**
- B. Suspended transactions**
- C. An error or a contra account**
- D. Normal adjustment**

An account balance appearing in the wrong column of a trial balance typically suggests that there could be an error in the recording of that transaction. This type of mistake usually occurs when a debit balance is mistakenly recorded in the credit column, or vice versa, leading to discrepancies in the trial balance. Furthermore, this situation can also indicate the presence of a contra account, which is an account that offsets another account—in essence, it can have normal credit or debit balances but may appear in the wrong column due to clerical errors during data entry or posting. Recognizing this type of issue is crucial, as it can help accountants quickly identify mistakes that could affect financial reporting accuracy. Thus, the implication of an incorrect column classification strongly correlates with the potential for errors or issues associated with contra accounts.

**4. What is the correcting entry for Advertising Expense related to an expense incurred but recorded in the wrong year?**

- A. A net debit to Advertising Expense of \$50,000**
- B. A net credit to Advertising Expense of \$40,000**
- C. A net credit to Advertising Expense of \$90,000**
- D. A net credit to Advertising Expense of \$140,000**

To determine the correcting entry for an Advertising Expense that has been recorded in the wrong year, it's essential to understand the nature of the error and how corrections are typically recorded in accounting. If an expense was incurred but recorded in a prior year, the correcting journal entry usually involves adjusting the current year's financial statements to reflect the appropriate amount. In the context of the choices provided, a net credit to Advertising Expense indicates that the original expense was overstated in the prior year and that the current year's expense needs to be reduced. When an expense is recorded incorrectly in a prior year, it means that the expense amount reported is higher than it should have been when considering the correct period. To correct this, the current year would need a credit to reverse the overstatement, reducing the Advertising Expense to accurately reflect the incurred expenses in line with the proper accounting period. In the case of a net credit of \$40,000, this implies that the advertising costs recorded in the prior period exceeded what should have been reported. Therefore, the entry appropriately addresses the correction needed for the financial statements to present a true and fair view of the company's current financial position regarding advertising expenses. This correcting entry ensures that the company's financial records are accurate, providing stakeholders with reliable information while

**5. What does NSF stand for in relation to checks?**

- A. Non-Standard Funding**
- B. Non-Sufficient Funds**
- C. Notable Service Fee**
- D. National Savings Fund**

In the context of checks, NSF stands for Non-Sufficient Funds. This term is used when a bank account does not have enough money to cover a check that has been presented for payment. When a check is written and there are insufficient funds in the account to honor that check, the bank may return it as "NSF." This can lead to various consequences, including fees for both the writer of the check and the payee, as the intended transaction is unsuccessful. Recognizing this term is important for understanding banking processes and the implications of writing checks without verifying adequate funds in an account.

**6. What type of entry is necessary for recognizing deferred revenue?**

- A. The ledger Cash account balance**
- B. Deferred revenue adjustment**
- C. Correction of the expense accrual**
- D. Accrual of expense**

Recognizing deferred revenue involves a specific type of journal entry that reflects the receipt of cash before the related goods or services are delivered. This situation creates a liability on the balance sheet, known as deferred revenue, since the company has an obligation to provide goods or services in the future. When recording deferred revenue, the company typically makes a journal entry that increases (credits) the deferred revenue account, establishing it as a liability. Simultaneously, a corresponding entry is made to increase (debit) the cash account, which reflects the cash received upfront. Thus, the adjustment for deferred revenue is crucial in ensuring that the revenues are recognized in accordance with the revenue recognition principle under accounting standards. This type of entry is necessary because it accurately matches the cash receipt with the obligation to provide services or goods in the future, adhering to the accrual basis of accounting. By doing so, it prevents the overstatement of revenue too early in financial statements.

7. At the year-end, if a physical count reveals that office supplies worth \$7,000 were used but no entry was made, what will be the likely issue?
- A. The trial balance would be out of balance by \$7,000
  - B. The trial balance would be out of balance by \$14,000
  - C. The trial balance would be out of balance by \$3,500
  - D. None of the above**

When no entry is made for the use of office supplies worth \$7,000, the accounting records do not reflect this expense. Although the actual supplies have been consumed, the transaction has not been recorded as a reduction in assets and an increase in expenses. This omission means that the accounts do not show the correct amounts for both the office supplies asset account and the expenses account. However, the trial balance comprises the totals of all debits and credits in the accounting records. In this case, since there has been no entry to record the expense, both the debits (for supplies) and credits (likely cash or accounts payable) remain unchanged, leading to no discrepancy in the overall balance of the trial balance. Therefore, because the trial balance isn't adjusted and no errors in double-entry accounting occurred due to this omission, it remains balanced despite the lack of appropriate expense recognition. As a result, the right assertion is that the trial balance will show no issues related to this event, aligning with the understanding that the omission has not created an imbalance in the accounting records.

8. When reconciling cash, which of the following is not a type of incoming credit?
- A. Interest earned
  - B. Bank errors**
  - C. Funds wired into the account
  - D. Notes collected by the bank

When reconciling cash, incoming credits to a bank account represent money being added to the account. The key point here is understanding the nature of each option in terms of being a direct source of funds contributing to the bank balance. Interest earned is a credit that represents the bank's payment to the account holder for keeping money in the bank. Funds wired into the account are also credits, as they reflect money being transferred directly into the account from another institution or individual. Notes collected by the bank means that the bank has received payment on a promissory note and credited that amount to the account holder's balance. However, bank errors do not fall under the category of incoming credits from transactions or deposits. Instead, bank errors are typically discrepancies that arise from the bank's side, whether they involve incorrect postings or accounting mistakes made by the bank. Although these errors may lead to adjustments in the account balance, they do not represent incoming funds deposited into the account by the account holder or through other transaction types. Therefore, bank errors are distinct from credits that reflect actual new money entering the account.

**9. Which of the following should be included as a bank error adjustment?**

- A. A deposit that was recorded incorrectly**
- B. A transfer from one account to another**
- C. A correctly processed payment**
- D. A delayed check clearance**

The inclusion of a deposit that was recorded incorrectly as a bank error adjustment is appropriate because it directly reflects a discrepancy between the bank's records and the company's records. When a deposit is recorded incorrectly, it implies that the amount recognized in the company's books does not match what was actually deposited in the bank. This requires an adjustment to ensure the financial statements accurately reflect the true cash position. In contrast, a transfer from one account to another generally isn't classified as a bank error. This operation is typically a normal banking transaction, and unless there's a mistake made in the transfer itself that leads to erroneous balances, adjustments would not be needed. A correctly processed payment also doesn't require an adjustment, as it has been recorded accurately and the bank's records correspond with the company's. This clearly documented transaction should align without any need for correction. Lastly, delayed check clearance is a timing issue rather than an error. The bank may have not processed the check yet, but it doesn't reflect a mistake by either the bank or the company that requires an adjustment. Thus, recording an adjustment for a delayed clearance is not necessary since it is a known factor in accounting for outstanding checks.

**10. What adjustment is necessary when an insurance payment is made but no entry is recorded?**

- A. Debit Insurance Expense for \$3,000**
- B. Credit Insurance Expense for \$3,000**
- C. Debit Insurance Expense for \$1,500**
- D. Debit Prepaid Insurance for \$1,500**

When an insurance payment is made without a corresponding journal entry, it typically indicates a failure to recognize the expense for the period in which the payment was made. Recording the insurance payment as an expense is essential because it reflects the cost incurred for the coverage provided during that period. Debiting Insurance Expense for the amount of the payment (in this case, \$1,500) correctly increases the expense account, aligning the financial statements with the accrual accounting principle. This principle dictates that expenses should be recognized when they are incurred, regardless of when the cash is actually paid. By debiting Insurance Expense, the financial records will show the appropriate costs associated with insurance for that period, ensuring that the net income accurately reflects the organization's true profitability. It's also important to note that any adjustments involving prepaid insurance would typically concern either the allocation of future insurance costs or the recognition of expenses as they are incurred. Since no entry was recorded for the insurance payment initially, the correct response directly addresses the need to capture the expense incurred.