

PLEASE NOTE THAT ZERO MARKS WILL BE AWARDED IF YOU DO NOT SHOW ALL YOUR COMPUTATIONS FOR THE FOLLOWING QUESTIONS IN THIS SECTION

PART 2 (36 Marks, 66 minutes)

QUESTION 21

Part A. (6 Marks).

- June 4 Willem Corporation purchased \$4,000 worth of merchandise, terms 2/10, n/30 from Cate Corporation. The cost of the merchandise to Cate was \$2,600.
- 10 Willem returned \$700 worth of goods to Cate for full credit. The goods had a cost of \$450 to Cate and were placed back into inventory.
- 13 Willem paid the account.

Instructions

Prepare the journal entries to record these transactions in Cate's records. Cate uses the perpetual inventory system.

ANSWER.

Cate's Records

| | | | | |
|------|----|--|-------|-------|
| June | 4 | Accounts Receivable | 4,000 | |
| | | Sales | | 4,000 |
| | 4 | Cost of Goods Sold | 2,600 | |
| | | Merchandise Inventory | | 2,600 |
| | 10 | Sales Returns and Allowance | 700 | |
| | | Accounts Receivable..... | | 700 |
| | 10 | Merchandise Inventory | 450 | |
| | | Cost of Goods Sold | | 450 |
| | 26 | Cash..... | 3,234 | |
| | | Sales Discounts | 66 | |
| | | Accounts Receivable (\$4,000 - \$700)..... | | 3,300 |

QUESTION 21

Part B. (5 Marks)

XPT Incorporation uses a periodic FIFO inventory system.

On December 31, a physical count reveals 130 units remaining in inventory.

Instructions

Using the following information, compute the ending inventory value and the cost of goods sold.

| Date | Description | Units | Unit Costs |
|-------|---------------------------|-------|------------|
| Dec 1 | Beginning Inventory | 100 | \$20 |
| 5 | Purchase | 500 | \$21 |
| 11 | Sale..... | 480 | |
| 18 | Purchase | 720 | \$22 |
| 21 | Sale..... | 810 | |
| 23 | Purchase | 100 | \$23 |

ANSWER.

To compute the ending inventory:

| | | | |
|-------|---------------------|---|-------------------|
| Dec 1 | Beginning Inventory | = | 100 units |
| 5 | Purchase | = | 500 |
| 18 | Purchase | = | 720 |
| 23 | Purchase | = | <u>100</u> |
| | | | <u>1420 units</u> |

| | | | |
|--------|------|---|-------------------|
| Dec 11 | Sale | = | 480 units |
| 21 | Sale | = | <u>810</u> |
| | | | <u>1290 units</u> |

1420 – 1290 = 130 units

Ending Inventory:

| | |
|--------------|----------------|
| 100 @ \$23 = | \$2,300 |
| 30 @ \$22 = | <u>660</u> |
| | <u>\$2,960</u> |

To compute the cost of goods sold:

| | |
|--------------------|-----------------|
| Opening Inventory | \$ 2,000 |
| + Purchases | <u>28,640</u> |
| | 30,640 |
| - Ending Inventory | <u>2,960</u> |
| Cost of Goods Sold | <u>\$27,680</u> |

OR

| | |
|--------------|-----------------|
| 100 @ \$20 = | \$ 2,000 |
| 500 @ \$21 = | 10,500 |
| 690 @ \$22 = | <u>15,180</u> |
| | <u>\$27,680</u> |

QUESTION 22 (9 Marks)

The adjusted trial balance of Veejay Corporation at December 31, 2012 included the following selected accounts:

| | <u>Debit</u> | <u>Credit</u> |
|------------------------------|--------------|---------------|
| Sales | | \$890,000 |
| Sales returns and allowances | \$32,000 | |
| Sales discounts | 8,000 | |
| Cost of goods sold | 429,000 | |
| Freight out | 11,200 | |
| Advertising expense | 45,000 | |
| Interest expense | 4,500 | |
| Salaries expense | 168,000 | |
| Utilities expense | 12,500 | |
| Depreciation expense | 4,200 | |
| Income tax expense | 36,120 | |
| Interest revenue | | 5,000 |

Instructions

Use the above information to prepare a multiple-step income statement for the year ended December 31, 2012.

ANSWER.

VEEJAY CORPORATION
Income Statement
Year Ended December 31, 2012

| | | |
|--|--------------|------------------|
| Sales | | \$890,000 |
| Less: Sales returns and allowances | \$32,000 | |
| Sales Discounts..... | <u>8,000</u> | <u>40,000</u> |
| Net sales | | 850,000 |
| Cost of goods sold..... | | <u>429,000</u> |
| Gross profit | | 421,000 |
| Operating expenses | | |
| Salaries expense..... | \$168,000 | |
| Advertising expense | 45,000 | |
| Utilities expense | 12,500 | |
| Freight out | 11,200 | |
| Depreciation expense..... | <u>4,200</u> | |
| Total operating expenses..... | | <u>240,900</u> |
| Profit from operations | | 180,100 |
| Other revenues and gains | | |
| Interest revenue | \$5,000 | |
| Other expenses and losses | | |
| Interest expense | <u>4,500</u> | <u>500</u> |
| Profit before income tax..... | | 180,600 |
| Income tax expense..... | | <u>36,120</u> |
| Profit..... | | <u>\$144,480</u> |

QUESTION 24 (11 Marks)

Note that the Income Statement has been completed. During the year the company issued \$5,000 common shares.

| Optimum Corporation Adjusted Trial Balance December 31 2012 | | |
|---|--------------|---------------|
| | <u>Debit</u> | <u>Credit</u> |
| Cash | \$ 22,000 | |
| Accounts receivable | 30,600 | |
| Merchandise inventory | 25,950 | |
| | | |
| Prepaid insurance | 1,200 | |
| Long-term investments | 37,000 | |
| Equipment | 26,800 | |
| Accumulated depreciation—Equipment | | \$ 16,080 |
| Leasehold improvements | 42,000 | |
| Accumulated depreciation—Leasehold improvements | | 12,600 |
| Accounts payable | | 34,400 |
| Salaries payable | | 1,210 |
| Interest payable | | 175 |
| Income tax payable | | 1,100 |
| Unearned revenue | | 600 |
| Mortgage payable | | 35,000 |
| Common shares | | 50,000 |
| Retained earnings 1 January 2012 | | 30,000 |
| Dividends | 10,000 | |
| Income Summary (Profit for the year) | | 14,385 |
| Totals | \$195,550 | \$195,550 |

Note that \$5,000 of the Mortgage is payable next year.

Instructions

Using the above Trial Balance, Prepare a Classified Statement of Financial Position.

ANSWER.

| Optimum Corporation Statement of Financial Position December 31, 2012 | | |
|---|---------------|------------------|
| <i>Assets</i> | | |
| Current assets | | |
| Cash | \$22,000 | |
| Accounts receivable | 30,600 | |
| Merchandise inventory | 25,950 | |
| Prepaid insurance | <u>1,200</u> | |
| Total current assets | | <u>\$79,750</u> |
| Long-term investments | | 37,000 |
| Property, plant, and equipment | | |
| Equipment | \$26,800 | |
| Less: Accumulated depreciation | <u>16,080</u> | \$10,720 |
| Leasehold improvements | \$42,000 | |
| Less: Accumulated depreciation | <u>12,600</u> | <u>29,400</u> |
| Total property, plant, and equipment | | <u>40,120</u> |
| Total assets | | <u>\$156,870</u> |

Liabilities and Shareholders' Equity

| | | |
|--|---------------|------------------|
| Current liabilities | | |
| Accounts payable..... | \$34,400 | |
| Salaries payable..... | 1,210 | |
| Interest payable..... | 175 | |
| Income tax payable..... | 1,100 | |
| Unearned revenue..... | 600 | |
| Current portion of mortgage..... | <u>5,000</u> | |
| Total current liabilities..... | | 42,485 |
| Long-term liabilities | | |
| Mortgage payable (\$35,000 - \$5,000) | | <u>30,000</u> |
| Total liabilities..... | | 72,485 |
| Shareholders' equity | | |
| Common shares | \$50,000 | |
| Retained earnings*..... | <u>34,385</u> | |
| Total shareholders' equity..... | | <u>84,385</u> |
| Total liabilities and shareholders' equity | | <u>\$156,870</u> |

* NOTE:

| | |
|-----------------------------|-----------------|
| Beginning retained earnings | \$30,000 |
| + Income Summary | <u>14,385</u> |
| | 44,385 |
| - Dividends | <u>10,000</u> |
| Ending retained earnings | <u>\$34,385</u> |