

**MID-TERM EXAMINATION SOLUTION**

**Fall 2012**

**Section A, B, and AA**

**October 20, 2012**

- 1) A
- 2) C
- 3) D
- 4) A
- 5) C
- 6) B
- 7) E
- 8) E
- 9) B
- 10) B
- 11) B
- 12) B , Amount is \$9 and is subtracted from the bank balance.

Calculation:

$$65 - 56 = 9$$

- 13) D or B is acceptable
- 14)A

**Question 2 – Part A 14 marks**

Jan. 1 Sold 100,000 shares to various investors for \$1,000,000 cash in total.

Cash	1,000,000	
Common shares		1,000,000

Jan. 2 Purchased office supplies from X Ltd. for \$500 on account.

Office supplies	500	
Accounts payable		500

Jan. 3 Purchased office equipment \$5,000 cash.

Office Equipment or Equipment	5,000	
Cash		5,000

Jan. 4 Borrowed \$20,000 from Very Large Bank and signed a two-year note.

Cash	20,000	
Note payable		20,000

Jan. 5 Provided services to various customers for \$2,100 cash.

Cash	2,100	
Service revenue		2,100

Jan. 6 Provided services to various customers for \$3,800 on account.

Accounts receivable	3,800	
Service revenue		3,800

Jan. 7 Paid \$100 cash to X Ltd. as partial payment for the supplies purchased on January 2.

Accounts payable	100	
Cash		100

Jan. 15 Received \$900 cash from some customers for the work done on January 6.

Cash	900	
Accounts receivable		900

Jan. 30 Paid a cash dividend of ten thousand dollars to shareholders.

Retained earnings or Dividends	10,000	
Cash		10,000

Jan. 31 Paid \$700 cash for employees' salaries earned in January.

Salaries expense	700	
Cash		700

Jan. 31 Paid \$1,100 cash for January office rent.

Rent expense	1,100	
Cash		1,100

Jan. 31 Paid \$800 cash for January utilities.

Utilities expense	800	
Cash		800

Jan. 31 Received a \$600 cash deposit from a customer for work that will be performed in February.

Cash	600	
Unearned revenue		600

Jan. 31 Paid \$1,100 cash in advance for February office rent.

Prepaid rent	1,100	
Cash		1,100

**Question 2 – Part B 10 marks ( 2 marks each)**

**INC and DEC unacceptable answers**

**Students should show their understanding of the effect and impact**

**There is no need for explanations**

- a. The insurance expense was not recorded , and the Prepaid was not adjusted

Assets	Liabilities	Shareholders Equity	Net income
<b>OV</b>	<b>NE</b>	<b>OS</b>	<b>OS</b>

- b. It should have been credited to Unearned Revenue

Assets	Liabilities	Shareholders Equity	Net income
<b>NE</b>	<b>US</b>	<b>OS</b>	<b>OS</b>

- c. It should have been salary payable rather than cash.

Assets	Liabilities	Shareholders Equity	Net income
<b>US</b>	<b>US</b>	<b>NE</b>	<b>NE</b>

- d. depn exp and acc depn should have been done

Assets	Liabilities	Shareholders Equity	Net income
<b>OS</b>	<b>NE</b>	<b>OS</b>	<b>OS</b>

- e. exp is under by \$3000 and assets over by 3000

Assets	Liabilities	Shareholders Equity	Net income
<b>OS</b>	<b>NE</b>	<b>OS</b>	<b>OS</b>

**Question 3- Inventory 27 marks total**

1) Perpetual inventory system

**STUDENTS CAN USE THE WORDS INVENTORY, MERCHANDISE OR MERCHANDISE INVENTORY – ALL OF THESE ARE CORRECT**

Journal				
DATE		ACCOUNTS	DR.	CR.
May	4	Inventory (\$5,400 + \$125)	5,525	
		Accounts Payable		5,525
	7	Supplies	375	
		Accounts Payable		375
	9	Accounts Receivable	950	
		Sales Revenue		950
		Cost of Goods Sold	250	
		Inventory		250
	11	Delivery Expense OR Freight out	25	
		Cash		25
	13	Accounts Payable	600	
		Inventory		600

18	Accounts Payable ( $\$5,400 + \$125 - \$600$ )	4,925	
	Cash ( $\$4,925 - \$144$ )		4,781
	Inventory [ $(\$5,400 - \$600) \times 0.03$ ]		144
19	Sales Returns and Allowances	175	
	Accounts Receivable		175
	Or no entry		
	Inventory	100	
	Cost of Goods Sold		100
	Also, the students can have no entry here since the goods was in poor condition and thus an adjustment can be made being Loss due to damaged goods . Damaged goods rarely gets placed back on the shelf.		
20	Inventory	3,900	
	Cash		3,900
21	Cash ( $\$775 \times 0.97$ )	751.75	
	Sales Discounts ( $\$775 \times 0.03$ )	23.25	
	Accounts Receivable ( $\$950 - \$175$ )		775.00
	Can round off here		

**Question B** Periodic Inventory

May 4	Purchases	5400	
	Account payable		5400
	Freight in or Transportation in	125	
	Account payable		125
May 7	Supplies	375	
	Account payable		375
May 9	Account receivable	950	
	Sales Revenue or Sales		950
May 11	Freight out or Delivery expense	25	
	Cash		25
May 13	Account payable	600	
	Purchase return and allowances		600
May 18	Account payable (5400+125-600)	4925	
	Cash (\$4,925 – \$144)		4781
	Purchase discount [ $(\$5,400 - \$600) \times 0.03$ ]		144
	STUDENTS CAN ROUND OFF HERE		
May 19	Sales returns and allowances	175	
	Account receivable		175
	If students make an entry to cost of goods sold and placing		
May 20	Purchases	3 900	
	Cash		3 900
	The students could have assumed that we continued to buy from the same supplier. If so you can accept the undernoted entry .		
May 20	Purchases (3900x97%)	3783	
	Cash		3783
May 21	Cash ( $\$775 \times 0.97$ )	751.75	
	Sales Discounts ( $\$775 \times 0.03$ )	23.25	
	Accounts Receivable ( $\$950 - \$175$ )		775.00



f) Insurance expense	750	(3000/12)x3
Prepaid insurance		750
	<u>Insurance expense</u>	<u>Prepaid insurance</u>
	750	750
	<u>750</u>	<u>3000</u>
		2250

2.	Heading	MDR Inc.
		Income Statement
		For the year end Dec 31, 2012
	Revenues	
	Sales revenue	935,500
	Less: Cost of goods sold	<u>(590000)</u>
	Gross profit	345500
	Expenses	
	Salary Expense	225,000
	Depreciation Expense	6000
	Insurance Expense	750
	Other expenses	16,500
	Net operational income	97,250
	Other revenue and expense	
	Rent revenue	1600
	Interest expense	1,833
	Net income or earnings	97,017 OR 97. 016. 67

Students can use parentheses – no problem

Expenses can be in any order EXCEPT they must show that int and rent is in other section

Students can use amortization exp rather than depn

Heading  
MDR Inc.  
Statement of retained earnings  
For the year end Dec 31, 2012

Retained Earnings January 1, 2012	\$165000
Net Income or Earnings	97016.67
<u>Dividends declared or Dividends</u>	<u>(60000)</u>
Retained Earnings December 31, 2012	\$202016.67

Or rounded off 202, 017

3. This part has 12 marks

Heading  
MDR Inc.  
Balance Sheet  
For the year end Dec 31, 2012

Assets	
Current Asset s	
Cash	112,000
Account receivable	385, 300
Inventory	36,000
<u>Prepaid Insurance (3000-750)</u>	<u>2,250</u>
Total Current Assets	\$535,550
Fixed Assets or Capital Assets or Long term assets	
Building	470,000
Less: Accumulated depreciation	26,000
Net book value	444,000
Total Asset	979,550

THE ORDER OF LIQUIDITY IS IMPORTANT THUS DEDUCT MARKS IF IT IS IN THE WRONG ORDER

Liabilities

Current liabilities

Accounts payable	70,000	
Unearned rent	3,200	✓
Salary payable	2,500	✓
Interest payable	1,833.33	✓
<u>Dividend payable</u>	<u>60,000</u>	
Total Current liabilities		✓
		\$137,533.33 OE ROUNDED OFF

**FOR CURRENT LIABILITIES THE ACCOUNTS CAN BE IN ANY ORDER,  
PREFERABLY ACCOUNT PAYABLE FIRST**

**IF STUDENST PLACED THE NOTE PAYABLE IN THE CURRENT SECTION  
DEDUCT 1 FULL MARK**