

ADM 1340A

INTRODUCTORY FINANCIAL ACCOUNTING

Quiz No. 1 (Fall 2013)

Solutions

..... / 30 marks

NAME: _____

STUDENT #: _____

Question No. 1 (14 marks)

Coyote Pest Control Services Limited was organized as a corporation on September 1, 2011. Coyote has just completed the accounting cycle for the second year ended August 31, 2013. Coyote has also completed a correct trial balance as follows:

Coyote Pest Control Services Limited
Trial Balance
August 31, 2013

	<u>Debit</u>	<u>Credit</u>
Cash	26,000	
Accounts receivable	30,800	
Supplies inventory	1,300	
Service vehicles (company vans)	60,000	
Equipment	14,000	
Accumulated amortization – service vehicles		20,000
Accumulated amortization – equipment		4,000
Accounts payable		16,700
Salaries payable		1,100
Note payable – long term		34,000
Common shares (10,000 shares issued and outstanding)		40,000
Retained earnings (on September 1, 2012)		4,300
Dividends declared	2,000	
Sales & service revenue		38,000
Maintenance contract revenue		17,000
Operating expenses (details omitted to conserve time)	27,000	
Depreciation expense (including \$2,000 on equipment)	12,000	
Interest expense	2,000	
TOTAL	<u>\$175,100</u>	<u>\$175,100</u>

Required:

Prepare a classified Statement of Financial Position (SFP) for Coyote Pest Control Services Limited as at August 31, 2013. Your SFP must be properly formatted and comply with the rules of adequate disclosure. Show your completed SFP on the next page. (*Hint: You will need to calculate profit before taxes for the year ending August 31, 2013 first before calculating applicable income tax expense and income tax payable. Assume Coyote Pest Control Services Limited has a 30% tax rate and that income taxes will be paid before April 30, 2014.*)

Question No. 1 (continued) (14 marks)

Answer:

Coyote Pest Control Services limited
Statement of Financial Position
August 31, 2013

<i>Assets</i>		
<i>Current Assets:</i>		
<i>Cash</i>	\$26,000	
<i>Accounts receivable</i>	30,800	
<i>Supplies inventory</i>	<u>1,300</u>	
<i>Total current assets</i>		\$58,100
<i>Noncurrent Assets:</i>		
<i>Service vehicles, at cost</i>	\$60,000	
<i>Less accumulated depreciation</i>	<u>20,000</u>	40,000
 <i>Equipment, at cost</i>	 14,000	
<i>Less accumulated depreciation</i>	<u>4,000</u>	<u>10,000</u>
<i>Total noncurrent assets</i>		<u>50,000</u>
<i>Total assets</i>		<u>\$108,100</u>

<i>Liabilities</i>		
<i>Current Liabilities:</i>		
<i>Accounts payable</i>	\$16,700	
<i>Income tax payable (\$55,000 – \$41,000) x 30%</i>	4,200	
<i>Salaries payable</i>	<u>1,100</u>	
<i>Total current liabilities</i>		\$ 22,000
<i>Long-Term Liabilities:</i>		
<i>Notes payable</i>		<u>34,000</u>
<i>Total liabilities</i>		<u>56,000</u>

<i>Shareholders' Equity</i>		
<i>Common Shares, 10,000 shares issued and outstanding</i>		40,000
<i>Retained earnings</i> ¹		<u>12,100</u>
<i>Total shareholders' equity</i>		<u>52,100</u>
<i>Total liabilities and shareholders' equity</i>		<u>108,100</u>

¹ (beginning balance, \$4,300 + profit, \$9,800 - dividends declared, \$2,000 = \$12,100)

Question No. 2 (4 marks)

The following four independent situations are described below:

- (a) Chang Corporation is in its third year of operations and has yet to issue annual financial statements.
- (b) Huyan Corporation has used different methods for recording the cost of its inventory. In the current year, the cost of goods sold is calculated based on the average cost of inventory. Last year, the cost of inventory was calculated based on the actual cost of each item sold. Next year, the company plans to change back to average cost.
- (c) Pahini Inc. is carrying inventory at its current cost of \$110,000. The inventory has a fair value of \$135,000.
- (d) Kahala Corporation expenses some inexpensive office equipment even though the equipment has a useful life of more than one year.

Required:

For each of the above situations, identify the fundamental or enhancing qualitative characteristic that may have been violated, if any. If no violation has occurred, state “no violation”.

Question No. 2 (continued) (4 marks)

Answer:

- (a) *Timeliness*
- (b) *Comparability (consistency)*
- (c) *No violation*
- (d) *No violation*

Question No. 3 (3 marks)

Humber Corporation reported the following current assets and current liabilities:

	<u>Dec. 31, 2012</u>	<u>Dec. 31, 2011</u>
Current assets		
Cash	\$ 40,000	\$ 30,000
Short-term investments	40,000	10,000
Accounts receivable	55,000	95,000
Inventory	110,000	90,000
Prepaid expenses	<u>35,000</u>	<u>20,000</u>
Total current assets	<u>\$280,000</u>	<u>\$245,000</u>
Current liabilities		
Accounts payable	\$120,000	\$110,000
Salaries payable	40,000	30,000
Income tax payable	<u>20,000</u>	<u>15,000</u>
Total current liabilities	<u>\$180,000</u>	<u>\$155,000</u>

Required:

Calculate the percentage change in Humber's working capital from 2011 to 2012. Round your answer to two decimal places.

Answer:

2011 Working capital = \$245,000 – \$155,000 = \$ 90,000

2012 Working capital = \$280,000 – \$180,000 = \$100,000

Change = \$10,000

Percentage change is 10,000 / 90,000 = 11.11%

Question No. 4 (9 marks)

The trial balance of Corr Industries Limited below does not balance.

Corr Industries Limited
Trial Balance
July 31, 2013

	<u>Debit</u>	<u>Credit</u>
Cash	\$ 1,600	
Accounts Receivable	6,600	
Supplies	600	
Equipment	8,300	
Accounts Payable		\$ 9,766
Common Shares		1,941
Dividends	1,500	
Service Revenue		15,200
Wages Expense	3,800	
Repair Expense	1,600	
Income Tax Expense.....	<u>2,000</u>	
Totals	<u>\$26,000</u>	<u>\$26,907</u>

Question No. 4 (9 marks) (continued)

An examination of the ledger and journal reveals the following seven items:

1. Each of the above listed accounts has a normal balance.
2. Cash of \$350 received from a customer on account was debited to Cash as \$530 and credited to Accounts Receivable as \$530.
3. Dividends of \$300 paid to shareholders were posted as a credit to Dividends of \$300 and a credit to Cash of \$300.
4. A cheque for Wages Expense of \$300 was omitted from the trial balance.
5. The purchase of equipment on account for \$700 was recorded as a debit to Repair Expense and a credit to Accounts Payable.
6. Services were performed on account for a customer for \$510. Accounts Receivable was debited \$510 and Service Revenue was credited \$51.
7. A payment on account for \$215 was credited to Cash for \$215 and credited to Accounts Payable for \$251.

Required:

Using the information above, prepare a corrected trial balance below. Your trial balance must balance.

Answer:

*Corr Industries Limited
Trial Balance
July 31, 2013*

	<u>Debit</u>	<u>Credit</u>
Cash [\$1,600 – \$180 (2)].....	\$ 1,420	
Accounts Receivable [\$6,600 + \$180 (2)].....	6,780	
Supplies.....	600	
Equipment [\$8,300 + \$700 (5)].....	9,000	
Accounts Payable [\$9,766 – \$251– \$215 (7)].....		\$ 9,300
Common Shares.....		1,941
Dividends [\$1,500 + \$300 + \$300 (3)].....	2,100	
Service Revenue [\$15,200 + \$459 (6)].....		15,659
Wages Expense [\$3,800 + \$300 (4)].....	4,100	
Repair Expense [\$1,600 – \$700 (5)].....	900	
Income Tax Expense.....	2,000	
Totals.....	<u>\$26,900</u>	<u>\$26,900</u>