

**There are 46 marks available on this exam**

Name: \_\_\_\_\_

Student #: \_\_\_\_\_

- 1) There are 46 marks available on this exam
- 2) This exam includes 8 pages and 4 questions.
- 3) This is a closed note, closed book examination.
- 4) All answers should be entered in this booklet.
- 5) You may use a calculator during the examination
- 6) Show all your work and calculations.
- 7) **Good Luck!**

**Question #0            (1 mark)            (2 minutes)**

**Please tick your tutorial number to the right:**

G01- Wed 8:35	G10-Wed 11:35	G19- Fri 8:35	G28- Tue 12:35	G37-Mon 10:35	
G02-Tue 11:35	G11- Tue 16:35	G20- Tue 18:05	G29- Mon 16:35	G38-Thu 18:05	
G03- Fri 13 :35	G12- Wed 18:05	G21- Tue 20:05	G30- Tue 08:35	G39-Thu 08:35	
G04-Fri 10:35	G13-Thur 19:05	G22- Tue 15:35	G31- Thu 20:05		
G05-Fri 09:35	G14- Thu 15:35	G23- Mon13:35	G32- Tue 19:05		
G06-Thu 11:35	G15- Thurs 9:35	G24- Wed 14:35	G33-Tue 09:35		
G07-Tue10:35	G16- Mon 14:35	G25- Tue 14:35	G34- Wed 12:35		
G08-Wed 10:35	G17- Mon 12:35	G26- Mon 11:35	G35-Mon 15:35		
G09-Wed 15:35	G18- wed 16:35	G27- Tue 13:35	G36- Mon 09:35		

**Question 1 (7 marks) (14 minutes)**

Belle Ltd. provided you with the following selected account balances at December 31, 2011 and 2012.

	<u>2012</u>	<u>2011</u>
<b>Current assets:</b>		
Cash	\$25,300	\$20,600
Short-term investments	-----	20,000
Accounts Receivable	47,100	44,000
Inventories	94,300	114,900
Prepaid Expenses	1,700	2,200
<b>Noncurrent Assets:</b>		
Land	35,100	10,000
Equipment, net of depreciation	80,900	93,700
<b>Total Assets</b>	<u>\$284,400</u>	<u>\$305,400</u>
<b>Current Liabilities:</b>		
Accounts Payable	22,700	24,600
Salaries Payable	2,100	1,400
Other Current Liabilities	24,400	22,500
<b>Noncurrent Liabilities:</b>		
Notes Payable	55,000	65,000
<b>Shareholders' Equity:</b>		
Capita Stock	131,100	122,300
Retained Earnings	49,100	69,600
<b>Total Liabilities and Shareholders' Equity</b>	<u>\$284,400</u>	<u>\$305,400</u>
Sales Revenue	\$349,700	
Cost of Goods Sold	185,700	
Profit Margin	<u>164,000</u>	
Depreciation Expense	15,300	
Other Operating expenses	140,700	
Operating Income	<u>8,000</u>	
Tax Expense	<u>2,400</u>	
Net Income	<u>\$5,600</u>	

**Required**

- 1- Calculate the Quick Ratio for BELLE Ltd. in 2011 and 2012. Comment on Belle's liquidity in 2012 compared to 2011.
- 2- Calculate the Return on Sales of BELLE Ltd. in 2012.

**Enter your answer to Question 1 here:**

**Question 2 (4 marks) (8 minutes)**

At the beginning of 2013, Mrox inc. had \$8,000 of merchandise inventory and \$23,000 of accounts payable. During 2013, Mrox total purchases of inventory amounted to \$45,000. It paid \$14,000 cash and recorded the remainder in its accounts payable. During 2013, total sales of Mrox amounted to \$70,000, with COGS of \$46,900. Of the \$70,000 Sales, Mrox received \$35,000 cash and recorded the remainder as Accounts Receivable. Mrox also paid \$ 40,000 of its Accounts Payable during 2013.

***Required:***

- 1) Determine the Profit Margin (or Gross Profit) to be reported by Mrox Inc. in its Statement of Income for the year ended December 31, 2013?
- 2) Determine the balances of the “Merchandise Inventory” account to be reported in the Statement of Financial Position of Mrox inc. as of December 31, 2013.

**Enter your answer to question 2 here:**

**Question 3 (16 marks) (32 minutes)**

Moller Computing Services provides computer consulting services and related computing services to small businesses. The account balances taken from the adjusted trial balance on December 31, 2012 are shown below:

**Moller Computing Services  
Adjusted Trial Balance  
December 31, 2012**

Accumulated depreciation, equipment	\$60,000
Advertising expense	21,900
Cash	14,500
Depreciation expense	20,000
Equipment	248,000
Interest expense	1,200
Note payable, due in December 1, 2015	30,000
Office supplies inventory	8,500
Other operating expenses	4,200
Prepaid advertising	2,100
Retained earnings (Beginning of year balance less dividends of \$20,000)	?
Sales	588,300
Salaries expenses	187,700
Capital stock	150,000
Accounts Payable	3,800
Accounts receivable	12,250
Unearned Revenue	10,800
Tax Expense	10,955
Cost of Goods Sold	322,000

**Required**

- 1- Prepare a Statement of Income and a classified Statement of Financial Position for Moller Computing Services for the 2012 year end.
- 2- Determine the balance of the Retained Earnings account as of January 1, 2012.

**Enter your answer to Question 3 here:**



**Question 4 (18 marks) (36 minutes)**

Randy Inc. has provided you with its accounts balances taken from its adjusted Trial Balance at the end of 2012.

	<b>Dr.</b>	<b>Cr.</b>
Cash	42,500	
Accounts Receivable	24,000	
Inventory	40,300	
Supplies inventory	15,000	
Prepaid Insurance	18,000	
Machinery	200,000	
Accumulated Depreciation- Machinery		92,000
Accounts Payable		48,000
Unearned Subscription Revenues		80,000
Notes payable		70,000
Capital Stock		48,300
Retained Earnings (as at December 31, 2011)		18,000
Sales		75,000
Cost of goods sold	37,500	
Salaries expense	23,000	
Utility expense	31,000	
	\$431,300	\$431,300

The company’s accountant has forgotten to record a few events in 2012. You are asked to provide the journal entry and/or the adjusting journal entry, as appropriate, for each of the following events **in the space provided below the event’s description.**

1. A bill for December’s utility costs of \$2,900 was received but not recorded. It will be paid in January 2013.
  
2. Randy had the following two insurance policies:
  - Insurance A is a one-year insurance policy taken on April 1, 2011, original cost was \$8,000. The initial purchase was recorded and the last adjusting entry for Insurance A was recorded in December 31, 2011.
  - Insurance B is a two-year insurance policy taken on March 1, 2012, original cost was \$16,000. The purchase of Insurance B was recorded but no adjusting entry was made in 2012.



6. The employees last pay date was December 26, 2012 for work completed to and including that date. The weekly payroll is \$21,000. Employees work 365 days per year.
  
7. The note payable of \$70,000 was taken in May 31, 2010 and bears annual interest of 10%. The principal and interest are due on April 1, 2014. The last adjusting journal entry was recorded on December 31, 2011.
  
8. The supplies inventory balance of \$15,000 reported in the trial balance represents the beginning supplies inventory and the purchases of the year. As of December 31, 2012, a physical count determined that the supplies on hand amounted to \$4,300.

<b>Question</b>	<b>Q#0</b>	<b>Q1</b>	<b>Q2</b>	<b>Q3</b>	<b>Q4</b>	<b>Total</b>
<b>Marks</b>	<b>1</b>	<b>7</b>	<b>4</b>	<b>16</b>	<b>18</b>	<b>46</b>
<b>Score</b>						

## SOLUTION VERSION A

### Question 1 version A = Question 2 version B (7 marks)

Quick Ratio = cash + S-T investments + A/R/Current Liabilities

$$\begin{aligned}\text{Quick Ratio}_{2012} &= \$25,300 + 47,100/22,700 + 2,100/24,400 \\ &= 72,400/49,200 \\ &= 1.47 \quad \mathbf{2 \text{ marks}}\end{aligned}$$

$$\begin{aligned}\text{Quick Ratio}_{2011} &= \$20,600 + 20,000/24,600 + 1,400/22,500 \\ &= 84,600/48,500 \\ &= 1.74 \quad \mathbf{2 \text{ marks}}\end{aligned}$$

Belle was more liquid in 2011 than in 2012 because its quick ratio dropped from 1.74 to 1.47 (use their own results). **1 mark**

$$\text{Return on Sales}_{2012} = \text{Net Income}/\text{Net Sales} = 5,600/349,700 = 1.6\%$$

**2 marks**

### Question 2 (4 marks)

$$\begin{aligned}1) \text{ Gross profit} &= \text{Sales} - \text{COGS} \\ &= \$70,000 - 46,900 \\ &= \$23,100 \quad \mathbf{2 \text{ marks}}\end{aligned}$$

$$\begin{aligned}2) \text{ Ending inventory} &= \text{Beg inventory} + \text{purchases} - \text{COGS} \\ &= 8,000 + 45,000 - 46,900 \\ &= \$6,100 \quad \mathbf{2 \text{ marks}}\end{aligned}$$

### Question 3 – 16 marks

#### Moller Computing Services Statement of Income For the year ended December 31, 2012

**1 mark for proper title**

Sales		\$588,300
COGS		322,000
Gross Profit/Profit Margin	<b>1</b>	<u>266,300</u>
Operating expenses		
Salaries	\$187,700	
Depreciation	20,000	
Advertising	21,900	
Other	4,200	233,800
Operating income	<b>1</b>	<u>\$32,500</u>
Interest expense	<b>1</b>	<u>1,200</u>
Net Income before taxes		<u>31,200</u>
Tax expense	<b>1</b>	<u>10,955</u>
Net Income	<b>1</b>	<u><u>\$20,345</u></u>

**1 mark for proper title**

**Moller Computing Services  
Statement of Financial Position  
As at December 31, 2012**

**ASSETS**

Current Assets

Cash	<b>0.5</b>	\$14,500
Accounts receivable	<b>0.5</b>	12,250
Supplies Inventory	<b>0.5</b>	8,500
Prepaid advertising	<b>0.5</b>	2,100
		<u>37,350</u>

Equipment	<b>0.5</b>	248000	
Accumulated depreciation	<b>0.5</b>	<u>60,000</u>	<u>188,000</u>
			<u>\$225,350</u>

**LIABILITIES AND SHAREHOLDERS' EQUITY**

Current liabilities

Accounts payable	<b>0.5</b>	\$3,800
Unearned Revenue	<b>0.5</b>	10,800
		<u>14,600</u>

Notes payable	<b>0.5</b>	30,000
		<u>44,600</u>

Shareholders' Equity

Capital Stock	<b>0.5</b>	150,000
Retained earnings	<b>1</b>	30,750*
		<u>57,400</u>
		<u>\$225,350</u>

\*Ending R/E = Total Liabilities and S/E – Total Liabilities – Capital Stock  
= \$225,350- 44,600 -150,000  
= \$30,750

2)Ending R/E (uses their own calculated RE)	30,750	<b>(1)</b>
+ Dividends	20,000	<b>(1)</b>
-N/I (uses their own calculated NI)	<u>(20,345)</u>	<b>(1)</b>
	<u>\$30,405</u>	

**Question 4 (18 marks)**

1. Utility expense	\$2,900	
Accounts payable		\$2,900

**1 mark for the entry**

2. Insurance A expense	2,000	
Prepaid insurance A		2,000

8,000/12\*3months= \$2,000  
**2 marks – 1 for entry, 1 for right amount**

Insurance B expense	6666.67	
Prepaid insurance B		6666.67

\$16,000/24\*10 = \$6666.67  
**2 marks- 1 for entry, 1 for right amount**

**OR- One Entry:** Prepaid Insurance 8,666.67 8,666.67  
Insurance expense

**2 marks for right entry and 2 marks for right amount**

3. Cash \$50,000  
Capital stock \$50,000

**1 mark for entry**

4. Cash \$5,000  
Accounts receivable 21,000  
Sales \$26,000

**1.5 marks for entry**

Cost of goods sold 13,000  
Inventory \$13,000

**1 mark for entry**

5. Building \$25,000  
Cash 10,000  
Note payable \$15,000

**1.5 marks for entry**

Depreciation expense 2,500  
Acc. Depreciation \$2,500

**2 marks- 1 for entry, 1 for right amount**

6. Salary expense 15,000  
Salaries payable 15,000

$21,000/7*5 = \$15,000$  **2 marks- 1 entry, 1 right amount**

7. Interest expense 7,000  
Interest payable 7,000

$\$70,000 * 10\% * 1 \text{ year} = \$7,000$  **2 marks- 1 for entry, 1 for right amount**

8. Supplies expense 10,700  
Supplies inventory 10,700

Beg supplies + purchases – supplies expense = ending supplies

Supplies expense =  $\$15,000 - \$4,300 = \$10,700$  **2 marks- 1 entry, 1 right amount**