

**ADM 1340 S**

**Quiz No. 1**

**(Winter 2014)**

NAME: \_\_\_\_\_

STUDENT #: \_\_\_\_\_

**Instructions:**

1. This quiz is 30 minutes in length.
2. This is a close-book, close-notes exam.
3. A calculator is allowed.
4. Please write or print neatly.

**Statement of Academic Integrity**

The School of Management does not condone academic fraud, an act by a student that may result in a false academic evaluation of that student or of another student. Without limiting the generality of this definition, academic fraud occurs when a student commits any of the following offences: plagiarism or cheating of any kind, use of books, notes, mathematical tables, dictionaries or other study aid unless an explicit written note to the contrary appears on the exam, to have in his/her possession cameras, radios (radios with head sets), tape recorders, pagers, cell phones, or any other communication device which has not been previously authorized in writing.

**Statement to be signed by the student:**

I have read the text on academic integrity and I pledge not to have committed or attempted to commit academic fraud in this examination.

**Signed:** \_\_\_\_\_

Note: an examination copy or booklet without that signed statement will not be graded and will receive a final exam grade of zero.

**Question 1 (15 points)**

Shown below is the trial balance for Weston Co. as at June 30, 2013, the company's year end. The company owner provides you with the following additional information:

- a. No interest has been paid yet on the note payable. The note has been outstanding since April 1 and the interest rate is 8%.
- b. The equipment originally cost \$100,000 and has an estimated residual value of \$10,000 and a useful life of 15 years.
- c. On June 1 the company renewed its insurance policy and paid a \$1,200 premium for the year. It was correctly recorded at that time as prepaid insurance.
- d. On October 1 the company sold a 12 month service contract to a client for \$18,000 and recorded it as Unearned Revenue because at that point they had not yet provided any service to the client.

**Weston Co.  
Trial Balance  
as at June 30, 2013**

	<u>Debit</u>	<u>Credit</u>
Cash	8,900	
Accounts receivable	28,000	
Prepaid insurance	1,200	
Equipment	100,000	
Accumulated amortization		6,000
Accounts payable		12,000
Note payable		20,000
Unearned revenues		18,000
Common shares		10,000
Retained earnings		6,700
Sales & service revenue		240,000
Salaries	120,000	
Rent	24,000	
Supplies expense	29,500	
Amortization expense	0	
Insurance expense	1,100	
Interest expense	0	
<b>TOTAL</b>	<u><b>\$312,700</b></u>	<u><b>\$312,700</b></u>

**Required:**

Prepare any adjusting entries required.

**Solution:** (15 min).

a)	Dr. Interest expense (SE)	400	
	Cr. Interest payable (L)		400
	To record interest owing on note payable $(.08 \times 20,000 \times 3\text{months}/ 12)$		
b)	Dr. Amortization expense (SE)	6,000	
	Cr. Accumulated amortization (XA)		6,000
	To record annual amortization expense $(100,000 - 10,000)/ 15$ years		
c).	Dr. Insurance expense (SE)	100	
	Cr. Prepaid insurance (A)		100
	To recognize 1/12 of the insurance premium as expired.		
d)	Dr. Unearned revenue (L)	13,500	
	Cr. Sales and service revenue (SE)		13,500
	To recognize 9/12 of the service contract revenue as earned.		

**Question 2 (15 points)**

Shrinkers, Inc. began operations in November of the current year with the following transactions occurring during the month:

- Nov. 1 Sold 5,000 common shares for \$12 per share.
- 2 Paid \$3,600 for three months' rent in advance.
- 5 Purchased \$8,000 of equipment paying 25% down and agreeing to pay the balance in two years.
- 6 Purchased inventory for \$9,000 on credit.
- 10 Sold on account \$6,000 of inventory for \$13,000.
- 15 Paid wages of \$1,200.
- 20 Collected \$4,000 from customers on account.
- 25 Paid suppliers \$3,000 on account.
- 31 Paid wages of \$1,100.
- 31 Recognized one month's rent expense.
- 31 Recognized one month's equipment amortization expense. The estimated salvage value is \$800 and the estimated useful life is 5 years.

**Required:**

Indicate the effects of these transactions on the balance sheet equation.

**Solution:** (15 min.)

Assets =							Liabilities +		Shareholders' Equity		
Date	Cash	+A/R	+Inv	+Prepaid Rent	+Equip-ment	=	A/P	+N/P	+CS	+R/E	
1	+60,000								+60,000		
2	-3,600			+3,600							
5	-2,000				+8,000			+6,000			
6			+9,000				+9,000				
10		+13,000								+13,000	
10			-6,000							-6,000	
15	-1,200									-1,200	
20	+4,000	4,000									
25	-3,000						-3,000				
31	-1,100									-1,100	
31				-1,200						-1,200	
31					-120					-120	
Total	+53,100	+9,000	+3,000	+2,400	+7,880	=	+6,000	+6,000	+60,000	+3,380	
	75,380						75,380				