

# ADM 1340P

## INTRODUCTORY FINANCIAL ACCOUNTING

### 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.

**Exercise 1. (50 marks)**

The following items are taken from the financial statements of La Brea Ltd. for the fiscal year ended December 31, 2012. Note they are in alphabetical order.

Accounts payable	\$ 15,500
Accounts receivable	18,000
Accumulated depreciation—video equipment	30,500
Retained earnings, December 31	44,000
Cash	15,000
Common shares (10,000 shares)	90,000
Note payable	70,000
Prepaid insurance	6,000
Retained earnings, January 1, 2012	12,000
Salaries payable	3,000
Supplies	4,000
Video equipment	210,000

**Instructions**

- (a) Prepare a classified statement of financial position for La Brea Ltd. at December 31, 2012, assuming the note payable is a non-current liability.
- (b) Calculate the current ratio, debt to total assets, and earnings per share. Assets at the beginning of 2012 totalled \$183,000. No shares were issued or redeemed during the year.

LA BREA LTD.  
Statement of Financial Position  
December 31, 2012

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<u>Assets</u>		
Current assets		
Cash .....		\$ 15,000
Accounts receivable .....		18,000
Supplies .....		4,000
Prepaid insurance .....		<u>6,000</u>
Total current assets .....		43,000
Property, plant and equipment		
Video equipment .....	\$210,000	
Less: Accumulated depreciation—video equipment .....	<u>30,500</u>	<u>179,500</u>
Total assets .....		<u>\$222,500</u>
<u>Liabilities and Shareholders' Equity</u>		
Current liabilities		
Accounts payable .....		\$ 15,500
Salaries payable .....		<u>3,000</u>
Total current liabilities .....		18,500
Non-current liabilities		
Note payable .....		<u>70,000</u>
Total liabilities .....		88,500
Shareholders' equity		
Common shares .....	\$90,000	
Retained earnings .....	<u>44,000</u>	<u>134,000</u>
Total liabilities and shareholders' equity .....		<u>\$222,500</u>

(b)

Current ratio:  $\$43,000 \div \$18,500 = 2.3:1$

Debt to total assets:  $\$88,500 \div \$222,500 = 39.8\%$

Earnings per share:  $\$32,000 \div 10,000 = \$3.20$

**Exercise 2. (40 marks)**

Prepare adjusting entries for the following transactions. Omit explanations.

1. Depreciation on equipment is \$1,050.
2. Interest incurred and owed on a loan but not paid or recorded is \$275.
3. There was a beginning balance of supplies of \$120 and the company purchased \$400 of office supplies during the period. At the end of the year \$70 of supplies were on hand.
4. Prepaid rent had a \$1,000 normal balance prior to adjustment. By year end \$400 had expired.
5. Accrued salaries at year end were \$1,100.

1.	Depreciation Expense	1,050	
	Accumulated Depreciation—Equipment		1,050
2.	Interest Expense	275	
	Interest Payable		275
3.	Supplies Expense	450	
	Supplies		450
	(\$120 + \$400 – \$70)		
4.	Rent Expense	400	
	Prepaid Rent		400
5.	Salaries Expense	1,100	
	Salaries Payable		1,100

**Exercise 3. (10 marks)**

For each item below, indicate whether the account will be debited or credited.

1. Increase in Salary Expense
2. Decrease in Accounts Payable
3. Increase in Prepaid Insurance
4. Increase in Common Shares
5. Decrease in Office Supplies
6. Increase in Dividends
7. Increase in Service Revenue
8. Decrease in Accounts Receivable
9. Increase in Rent Expense
10. Decrease in Store Equipment

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|------------------------------------|-----|
| 1. Increase in Salary Expense      | Dr. |
| 2. Decrease in Accounts Payable    | Dr. |
| 3. Increase in Prepaid Insurance   | Dr. |
| 4. Increase in Common Shares       | Cr. |
| 5. Decrease in Office Supplies     | Cr. |
| 6. Increase in Dividends           | Dr. |
| 7. Increase in Service Revenue     | Cr. |
| 8. Decrease in Accounts Receivable | Cr. |
| 9. Increase in Rent Expense        | Dr. |
| 10. Decrease in Store Equipment    | Cr. |