École de gestion TELFER School of Management

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ADM 1340P
INTRODUCTORY FINANCIAL ACCOUNTING
Quiz No. 3 (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.

Ex. 1

A machine was acquired on January 1, 2012, at a cost of $80,000. The machine was originally estimated to have a residual value of $5,000 and an estimated life of 5 years. The machine is expected to produce a total of 100,000 components during its life, as follows: 15,000 in 2012, 20,000 in 2013, 20,000 in 2014, 30,000 in 2015, and 15,000 in 2016.

Instructions

(a) Calculate the amount of depreciation to be charged each year, using each of the following methods.
1. Straight-line method
2. Units-of-production
3. Double diminishing-balance

(b) Which method results in the highest depreciation expense
1. during the first two years?
2. over all five years?

Solution

(a) 1. Straight-line

DATE	ASSET COST	DEPRECIATION RATE	DEPRECIABLE COST	DEPRECIATION EXPENSE	ACCUMULATED DEPRECIATION	CARRYING AMOUNT
Jan. 1, 2012	$80,000					$80,000
Dec. 31, 2012		20%	$75,000	$15,000	$15,000	65,000
Dec. 31, 2013		20%	75,000	15,000	30,000	50,000
Dec. 31, 2014		20%	75,000	15,000	45,000	35,000
Dec. 31, 2015		20%	75,000	15,000	60,000	20,000
Dec. 31, 2016		20%	75,000	15,000	75,000	5,000

Annual depreciation: ($80,000 – $5,000) ÷ 5 years = $15,000

(a) 2. Units-of-production

DATE	ASSET COST	DEPRECIATION PER COMPONENT	NUMBER OF COMPONENTS	DEPRECIATION EXPENSE	ACCUMULATED DEPRECIATION	CARRYING AMOUNT
Jan. 1, 2012	$80,000					$80,000
Dec. 31, 2012		$0.75	15,000	$11,250	$11,250	68,750
Dec. 31,		0.75	20,000	15,000	26,250	53,750

2013					
Dec. 31, 2014	0.75	20,000	15,000	41,250	38,750
Dec. 31, 2015	0.75	30,000	22,500	63,750	16,250
Dec. 31, 2016	0.75	15,000	11,250	75,000	5,000
		100,000			

Depreciation per component: ($80,000 – $5,000) ÷ 100,000 units = $0.75

(a) 3. Double diminishing-balance

DATE	ASSET COST	DEPRECIATION RATE	ASSET CARRYING AMOUNT	DEPRECIATION EXPENSE	ACCUMULATED DEPRECIATION	CARRYING AMOUNT
Jan. 1, 2012	$80,000					$80,000
Dec. 31, 2012		40%	$80,000	$32,000	$32,000	48,000
Dec. 31, 2013		40%	48,000	19,200	51,200	28,800
Dec. 31, 2014		40%	28,800	11,520	62,720	17,280
Dec. 31, 2015		40%	17,280	6,912	69,632	10,368
Dec. 31, 2016		40%	10,368	*5,368	75,000	5,000

DDB rate: 2/5 = 40%

* Amount required to reduce carrying amount to residual value

(b) 1. The double diminishing-balance results in the highest depreciation in the first two years.

2. Over the five year life of the asset all of the methods result in the same amount of depreciation expense as the asset is depreciated to the residual value.

Ex. 2

On April 1, Poker Corporation borrows $160,000 from Regal Bank by signing an 8-month, 6%, bank loan. Interest is due at maturity.

Instructions

Prepare the entries listed below associated with the bank loan on the books of Poker Corporation. Its year end is June 30.

(a) The entry on April 1 when the loan was received.

(b) Any adjusting entries necessary on June 30. Assume no other interest accrual entries have been made.

(c) The entry to record repayment of the loan at maturity.

Solution

(a)	April	1	Cash	160,000	
			Bank Loan Payable		160,000
(b)	June	30	Interest Expense ($160,000 × 6% × 3/12)	2,400	
			Interest Payable		2,400
(c)	Dec.	1	Bank Loan Payable	160,000	
			Interest Payable	2,400	
			Interest Expense ($160,000 x 6% x 5/12)	4,000	
			Cash		166,400