

**ADM 2342 A**  
**INTERMEDIATE FINANCIAL ACCOUNTING 1**  
**Fall 2014**  
**Competency Quiz (Quiz No. 1)**  
**Solutions (amended)**

..... / 25 marks

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

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

**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.

Name: \_\_\_\_\_ (signature)

Note:

A quiz received without the signature of the student will not be graded and will receive a score of zero.

**Question No. 1 (8 marks)**

**Required:**

Answer the following four short-answer questions by entering your answer in the space provided. Each question is worth 2 marks. No account will be taken of any calculations provided.

- (a) The trial balance of Goddard Corporation contained the following account balances at December 31, 2013:

Accumulated Depreciation – Equipment	\$45,000
Short-Term Investments	15,000
Prepaid Insurance	3,000
Cash	33,000
Merchandise Inventory	90,000
Equipment and Furniture	54,000
Patent	12,000
Accounts Receivable (net)	48,000
Land Held for Future Business Site	75,000

On Goddard's December 31 2013 Statement of Financial Position, total current assets are:

\_\_\_\_\_

(Answer: \$189,000) [ $\$15,000 + \$3,000 + \$33,000 + \$90,000 + \$48,000$ ]

- (b) The trial balance of Dux Electronics Inc. contained the following account balances at December 31, 2013:

Accounts Payable	\$108,900
Advances to Employees	4,500
Unearned Rent Revenue	28,800
Estimated Liability Under Warranties	25,800
Cash Surrender Value of Officers' Life Insurance	7,500
Bonds Payable	532,500
Trademarks	3,900

On Volta's December 31 2013 Statement of Financial Position, total liabilities are:

\_\_\_\_\_

(Answer: \$696,000) [ $\$108,900 + \$28,800 + \$25,800 + \$532,500$ ]

- (c) The Wolfe Co. was incorporated on July 1, 2012, with \$200,000 from the issuance of common shares to its owners and \$30,000 from funds borrowed from a local bank. During the first year of operations ending June 30, 2013, net income was \$10,000. On December 15, 2012 Wolfe Co. paid cash dividends totaling \$800 to its owners. No additional activities affected shareholders equity during the first year of operations. At June 30, 2013, Wolfe's liabilities had increased to \$37,600.

On Wolfe Co.'s June 30, 2013 Statement of Financial Position, total assets should be:

\_\_\_\_\_

(Answer: \$246,800) [ $\$37,600 + \$200,000 + \$10,000 - \$800$ ]

- (d) The December 31, 2012 Statement of Financial Position of Madden Inc. reported total assets of \$1,050,000 and total liabilities of \$680,000. The following information relates to 2013:

- Madden Inc. issued an additional 5,000 common shares at \$25 per share on July 1, 2013.
- Madden Inc. declared and paid dividends totaling \$80,000.
- Net income for 2013 was \$110,000.
- No other changes occurred which affected shareholders' equity during 2013.

**Question No. 1 (continued) (8 marks)**

The shareholders equity section of the December 2013 Statement of Financial Position for Madden Inc. would report a balance of: \_\_\_\_\_

(Answer: \$525,000) [ $(\$1,050,000 - \$680,000) + (5,000 \times \$25) + \$110,000 - \$80,000$ ]

**Question No. 2 (6 marks)**

**Required:**

Answer the following six (6) multiple choice questions by circling your choice as the best answer directly on the quiz sheet. Each question is worth 1 mark. Only one answer will be accepted per question. There is no penalty for guessing. No account will be taken of any calculations or explanations provided.

- (a) Accounting information is considered to be relevant when it
- a. can be depended on to represent the economic conditions and events that it is intended to represent.
  - b. is capable of making a difference in a decision.*
  - c. is understandable by reasonably informed users of accounting information.
  - d. is verifiable and neutral.
- (b) Timeliness is increased by
- a. Quarterly reporting.*
  - b. Comparative financial statements.
  - c. Representational faithfulness.
  - d. Annual reporting.
- (c) A local businessman owns several different companies. His accountant prepares separate financial statements for each of these businesses. This is an application of the
- a. full disclosure principle.
  - b. periodicity assumption.
  - c. going concern assumption.
  - d. economic entity assumption.*
- (d) Fraudulent financial reporting is a business reality. While it cannot be eliminated, the risk of fraudulent reporting can be decreased. Which of the following considerations is LEAST likely to lessen that risk?
- a. an independent audit committee.
  - b. an internal audit function.
  - c. vigilant management.
  - d. an increased focus on tying bonuses to short-term company performance.*
- (e) Principles-based GAAP is sometimes criticized for being
- a. too inflexible.
  - b. too flexible.*
  - c. too inconsistent.
  - d. too difficult for a user to understand.

**Question No. 2 (continued) (6 marks)**

- (f) Which of the following is not an objective of financial reporting?
- a. to provide information about an entity's economic resources, obligations and equity/net assets.
  - b. to provide information that is useful to investors and creditors and other users in making resource allocation decisions and/or assessing management stewardship.
  - b. to provide information that is useful in assessing economic performance of the entity.
  - d. *To provide the most useful information possible even if the costs exceed the benefits.*

**Question No. 3 (7 marks)**

The following account balances were taken from the unadjusted trial balance of Emmett Incorporated on December 31, 2013. Emmett has a December 31 year-end.

	<u>Debit</u>	<u>Credit</u>
Cash	\$300,000	
Prepaid Insurance	50,000	
Land	400,000	
Accounts Payable		30,000
Common Stock		250,000
Retained Earnings		150,000
Service Revenue		650,000
Wages Expense	150,000	
Rent Expense	180,000	
Total	<u>\$1,080,000</u>	<u>\$1,080,000</u>

Additional information is as follows:

- (i) Prepaid insurance in the trial balance represents an advance payment for 5 months of insurance made on November 1, 2013.
- (ii) In July, the accountant debited accounts payable for a \$10,000 fine for a pollution violation; "Environmental Expense" should have been debited.
- (iii) Rent expense in the trial balance represents an advance payment for 6 months' rent paid on October 1, 2013. The Company begins occupying the property on that date.
- (iv) Unpaid and unrecorded wages earned by employees at December 31, 2013, were \$60,000.
- (v) The income tax liability for the year is \$100,000, payable April 15, 2014.

**Required: (Narrative explanations are not required.)**

- (a) Prepare, in good format, the adjusting entries for Emmett Incorporated on December 31, 2013.
- (b) Prepare any necessary year-end closing entries.

Answer:

(a)

(i)	<i>Insurance Expense</i>	20,000	
	<i>Prepaid Insurance</i>		20,000
(ii)	<i>Environmental Expense</i>	10,000	
	<i>Accounts Payable</i>		10,000
(iii)	<i>Prepaid Rent</i>	90,000	
	<i>Rent Expense</i>		90,000
(iv)	<i>Wages Expense</i>	60,000	
	<i>Wages Payable</i>		60,000
(v)	<i>Income Tax Expense</i>	100,000	
	<i>Income Tax Payable</i>		100,000

**Question No. 3 (continued) (7 marks)**

(b)

(i)	<i>Service Revenue</i>	650,000	
	<i>Income Summary (or Retained Earnings)</i>		650,000
(ii)	<i>Income Summary (or Retained Earnings)</i>	430,000	
	<i>Insurance Expense</i>		20,000
	<i>Environmental Expense</i>		10,000
	<i>Rent Expense</i>		90,000
	<i>Wages Expense</i>		210,000
	<i>Income Tax Expense</i>		100,000

**Question No. 4 (4 marks)**

On June 15, 2013, Castlefrank Developments Limited (CDL) paid \$5,400 for an annual casualty insurance premium for a policy beginning July 1, 2013. CDL initially debited insurance expense for the payment. In addition, on October 1, 2013 CDL received an advance payment of \$6,930 from a customer for a 9-month equipment rental. CDL initially credited unearned revenue for the payment received.

**Required: (Narrative explanations are not required.)**

Provide the appropriate adjusting entry for these two transactions on October 31, 2013, the company's year-end.

Answer:

Oct 31	<i>Prepaid Insurance (\$5,400 x 8/12)</i>	3,600	
	<i>Insurance Expense</i>		3,600

Note: *The payment was initially debited to insurance expense. Therefore, the adjusting entry must reduce the debit that was made to insurance expense to reflect the true portion of prepaid insurance that had expired (i.e. the true amount of insurance expense). The adjusting entry must also set up the remaining balance in the prepaid insurance account.*

Oct 31	<i>Unearned Rent Revenue (\$6,930 x 1/9)</i>	770	
	<i>Rent Revenue</i>		770