

ADM 1340A

INTRODUCTORY FINANCIAL ACCOUNTING

Quiz No. 2 (Fall 2013)

Solutions

..... / 20 marks

NAME: _____

STUDENT #: _____

Question No. 1 (8 marks)

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 6%.
- b. The equipment originally cost \$200,000 and has an estimated residual value of \$20,000 and a useful life of 6 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. They have been providing the service since the contract was sold.

**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	200,000	
Accumulated depreciation - equipment		6,000
Accounts payable		12,000
Note payable		20,000
Unearned revenue		18,000
Common shares		60,000
Retained earnings		56,700
Sales revenue		240,000
Salaries	120,000	
Rent	24,000	
Supplies expense	29,500	
Amortization expense	0	
Insurance expense	1,100	
Interest expense	0	
TOTAL	<u>\$412,700</u>	<u>\$412,700</u>

Question No. 1 (8 marks) (continued)

Required:

Prepare adjusting entries dated June 30, 2013, as required. All adjusting entries are to be properly formatted. Narrative explanations are not required but supporting calculations must be shown.

Answer:

<i>June 30, 2013</i>			
<i>Interest expense</i>		300	
<i>Interest payable</i>			300
<i>Interest owing on note payable = \$300 (.06 × 20,000 × 3/12)</i>			
<i>June 30, 2013</i>			
<i>Depreciation expense</i>		30,000	
<i>Accumulated depreciation - equipment</i>			30,000
<i>Annual depreciation expense = \$30,000 (200,000 – 20,000) / 6 years</i>			
<i>June 30, 2013</i>			
<i>Insurance expense</i>		100	
<i>Prepaid insurance</i>			100
<i>Insurance expense = \$100 (1/12 x \$1,200)</i>			
<i>June 30, 2013</i>			
<i>Unearned revenue</i>		13,500	
<i>Sales revenue</i>			13,500
<i>Contract revenue earned = \$13,500 (9/12 x \$18,000)</i>			

Question No. 2 (12 marks)

The following merchandise transactions occurred during June 2013 between Raymer Corporation and Bright Industries Ltd. Both companies use a perpetual inventory system:

- June 2 Raymer Corporation sold \$9,000 of its merchandise to Bright Industries Ltd. Under terms 2/10, net 30, FOB shipping point. The cost of the merchandise sold was \$5,000.
- June 6 Shipping costs were \$225 paid by the appropriate company.
- June 9 Bright Industries Ltd. returned unwanted merchandise back to Raymer. The returned merchandise had a sales price of \$600 and a cost of \$325. The returned merchandise was restored to inventory.
- June 10 Raymer Corporation received the balance due from Bright Industries Ltd.

Required:

- (a) Prepare dated journal entries for each of the above transactions on the books of Raymer Corporation. Narrative explanations are not necessary. All supporting calculations must be shown. (7 marks)
- (b) Calculate the dollar amount of gross profit earned by Raymer on the above transactions. (5 marks)

Answer:

<i>June 2</i>	<i>Accounts Receivable</i>	<i>9,000</i>	
	<i>Sales</i>		<i>9,000</i>
	 <i>Cost of Goods Sold.....</i>	 <i>5,000</i>	
	<i>Merchandise Inventory</i>		<i>5,000</i>

Question No. 2 (12 marks) (continued)

June 6	<i>No journal entry necessary</i>		
June 9	<i>Sales Returns and Allowances</i>	600	
	<i> Accounts Receivable</i>		600
	<i>Merchandise Inventory</i>	325	
	<i> Cost of Goods Sold</i>		325
June 10	<i>Cash</i> (\$8,400 – \$168).....	8,232	
	<i>Sales Discounts</i> [(\$9,000 – \$600) × 2%]	168	
	<i> Accounts Receivable</i> (\$9,000 – \$600).....		8,400

Calculation of Raymer’s gross profit:

<i>Sales</i>		\$9,000
<i>Less: Sales returns and allowances</i>	\$600	
<i> Sales discounts</i>	<u>168</u>	<u>768</u>
<i>Net sales</i>		8,232
<i>Cost of goods sold</i> (\$5,000 – \$325)		<u>4,675</u>
<i>Gross profit</i>		<u>\$3,557</u>