CONCORDIA UNIVERSITY — **FINANCIAL ACCOUNTING**
DEPARTMENT OF ACCOUNTANCY — **COMM 217 ALL SECTIONS**

MIDTERM EXAMINATION (REGULAR)
WINTER 2014

SOLUTIONS:

Question 1 (30 marks)

1. c	2. d	3. c	4. d	5. b	6.c	7. d	8. c	9. d	10. d
11. c	12. d	13. c	14. d	15. d	16. c	17. c	18. b	19. b	20. d

QUESTION 2

Required 1:

Dec. 1	Prepaid Rent	$12,000	
	Cash		$12,000
Dec. 1	Equipment	$45,000	
	Cash		$15,000
	Note Payable		$30,000

*Calculation: 45,000*1/3=15,000*

Dec. 3 No Entry, because (a) no cash payment was made, (b) nor were supplies received.

Dec. 6	Prepaid Insurance	$3,600	
	Cash		$3,600
Dec. 12	Trade receivables	$30,000	
	Sales Revenue		$30,000
	Cost of goods sold	$12,000	
	Merchandise Inventory		$12,000
Dec. 16	Wages Expense	$8,000	
	Cash		$8,000

Dec. 18 No Entry, because (a) no product was delivered, (b) nor was cash payment received.

Dec. 23 No Entry, because (a) the membership was for 2014 and (b) payment wasn't made.

Required 2:

A. Membership Expense……………………………………….$80
Prepaid Membership……………………………………….$80

B. Interest Receivable………………………………………….$600
Interest Income/Revenue……………………………………$600

*Calculation:30000*4%=1,200 per year*
*1,200*6/12=600*

C. Depreciation Expense……………………………………….$11,250
Accumulated Depreciation – Building………………………….. $7,500
Accumulated Depreciation – Equipment……………………….... $3,750

D. Wages Expense……………………………………………..$8,000
Wages Payable…………………………………………………$8,000

E. Retained earnings, or "Dividends Declared" ……………….....$17,500
Dividends payable ……………………………………………$17,500

F. Bad debts expense………………………………………………$750
Allowance for doubtful accounts …………………………………$750

Calculation: 3000-2250=750

Rent Expense……………………………………………………$1,000
Prepaid Rent…………………………………………………….$1,000

Calculations=12000/12=1000

Interest Expense……………………………………………….. $150
Interest Payable…………………………………………………$150

*Calculations=30000*6%*1/12=150*

Insurance Expense……………………………………………… $300
Prepaid Insurance………………………………………………$300

*Calculations: 3600*1/12=300*

G. Income tax expense ………………………………………........$10,610
Prepaid income taxes……………………………………………$1,300
Income taxes Payable……………………………………………$9,310

Required 3:

Oshawa Ltd.
Income Statement
For the Year Ended December 31, 2013
($)

Sales Revenue	$406,250
Less: Sales Returns and Allowances	$5,500
Net Sales	$400,750
Cost of Goods Sold	$173,250
Gross Profit *or* Gross Margin	$227,500
Operating Expenses	
Bad Debts Expense	$750
Depreciation Expense	$11,250
Insurance Expense	$300
Membership Expense	$960
Miscellaneous Operating Expenses	$1,750
Rent Expense	$14,750
Wages Expense	$155,750
	$185,510
Operating Profit or Profit from Operations	*$41,990*
Other Revenue and expenses	
Interest Income *or* Int. Revenue	$600
Profit Before interest and taxes	*42,590*
Interest Expense	($150)
Profit before Income Taxes	*$42,440*
Income Tax Expense	$10,610 (42,440 * 25%)
Profit	**$31,830**

EPS (31,830/10,000) $3.18

Required 4:

Oshawa Ltd.
Statement of Financial Position (Partial)
Dec. 31, 2013

Liabilities	
Current Liabilities	
Trade Payables	$41,250
Deferred Revenue	$14,050
Wages Payable	$8,000
Dividends Payable	$17,500
Interest Payable	$150
Income Tax Payable	$9,310
Total Current Liabilities	$*90,260*
Non-Current Liabilities	
Note Payable	$30,000
Total Non-Current Liabilities	$*30,000*
Total Liabilities	**$120,260**
Shareholders' Equity	
Share Capital (10,000 shares)	$250,000
Retained Earnings*	$233,330
**Calculations: (219,000 + 318830-17500)=233,330*	
Total Shareholders' Equity	*$483,330*
Total Liabilities and Shareholders' Equity	**$603,590**

Required 5:
Net Profit Margin = Profit / Net Sales = 31,830 / 400,750 = 7.94%.

Net Profit Margin evaluates how effective management is at controlling revenues and expenses to generate more profit on sales.

Total Asset Turnover = Net Sales / Average Total Assets

= 400,750 / [(550,000 + 603,590)/2]   = 0.69

Total Asset Turnover evaluates how effective management is in generating sales from assets (resources).

Return on Equity = Profit / Average Shareholder's Equity

= 31,830 /{[(219,000 + 250,000) + (219,000 -17,500 + 31,830+250,000)]/2}

= 8.75%

Return on Equity evaluates how management used shareholder investment to generate profit during a period.

QUESTION 3
Required 1 (6 marks)

a) Cash……………………………………………………..…3,000
Trade Receivable…………………………………………12,000
Sales Revenue……………………………………………..…15,000
*Calculations:15000*80%=12000*

b) Sales Returns……………………………………………500
Cash………………..………………………………..……50
Trade Receivable……………….……………………………...450

c) Cash……………………………………………………11,319
Sales Discount…………………………………………..…231
Trade Receivable……………………………………………..11,550
*Calculations: (12000-450)*2%=231*

d) Allowance for Doubtful Accounts………………………1,000
Trade Receivable……………………………………………1,000

e) Cash……………………………………………………5,238
Credit Card Discount or Fee…………………………………162
Sales Revenue……………………………………………….5,400
*Calculations:5400*3%=162*

f) Trade Receivable……………………………………...600
Allowance for Doubtful Accounts…………………………....600
Cash……………………………………………………600
Trade Receivable……………………………………………..600

Required 2:

Desirable balance of Allowance for Doubtful Accounts as at December 31, 2012 = $55,000x 3% = 1,650
Desirable balance of Allowance for Doubtful Accounts as at December 31, 2013 = ($51,000^{a} – 1,000^{b}) = 50,000^{c} x 3.5% = 1,750
Bad Debt Expense of 2013:
1,650^{d} + 600^{e} – 1,000^{b}+ X = 1,750^{f}
X = 500

Note:
a. The balance of Trade Receivable as at November 30, 2013.
b. The amount of write-off (December 17).
c. The balance of Trade Receivable as at December 31, 2013.
d. The balance of Allowance for Doubtful Accounts as at December 31, 2012.
e. The amount of recovery (December 27).
f. The balance of Allowance for Doubtful Accounts as at December 31, 2013.

Required 3:

Trade Receivable Turnover = Net Credit Sales/Average net Trade Receivables
Net Credit Sales (2013) = $328,000^{a} + 12,000^{b} – 450^{c} – 231^{d} = $339,319
Trade Receivable Turnover = 339,319 / [(53,350^{e} + 48,250^{f}) / 2] = 6.68

Note:
a. The balance of Net Credit Sales as at November 30, 2013.
b. The amount of credit sales (December 2).
c. The amount of sales returns related to credit sales (December 4).
d. The amount of sales discount (December 12).
e. Trade Rec as at Dec 31, 2012=55,000
AFDA as at Dec 31, 2012=(55,000*3%)=1650
Trade Rec, Net as at Dec 31, 2012=(55000-1650)=53,350
f. Trade Rec as at Dec 31, 2013=50,000
AFDA as at Dec 31, 2013=1750
Trade Rec, net as at Dec 31, 2013(50,000-1750)=48,250

Gateway's average collection period is 55 days (365/6.68), which almost doubles the credit term of 30 days. [Alternatively, per the credit term of 30 days, the Trade

Receivable Turnover should be around 12.17 times (365 / 30)]. Gateway's management appears to be doing a poor job of managing the company's receivables.

Required 4:

Bad Debt Expense of 2013 = 339,319[d] x 1% = 3,393
Balance of Allowance for Doubtful Accounts as at December 31, 2013 =
1,650[a] + 600[b] – 1,000[c] + 3,393 = 4,643

Note:
a. The balance of Allowance for Doubtful Accounts as at December 31, 2012.
b. The amount of recovery (December 27).
c. The amount of write-off (December 17).
d. The balance of Net Credit Sales as at December 31, 2013.

Gateway Inc.
Statement of Financial Position (partial)
As at Dec 31st, 2013

Assets
Current Assets
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Trade Receivable	$50,000
Less: Allowance for Double Accounts	4,643
Trade receivable, net	45,357