

SOLUTIONS TO REGULAR MID-TERM EXAM – WINTER 2015

QUESTION 1

1. B
2. C
3. B
4. C
5. C
6. D
7. B
8. A
9. C
10. C
11. D
12. C
13. A
14. B
15. D
16. C

QUESTION 2

Requirement 1:

Sep. 1	Equipment	225,000	
	Cash		56,250
	Note Payable		168,750
	<i>Calculation: 225,000 x 1/4 = \$56,250</i>		
 Sep. 3	Cash,.....	 80,000	
	Share Capital		80,000
 Sep. 12	Trade Receivables	 65,000	
	Sales Revenue		65,000
	Cost of Sales	26,000	
	Merchandise Inventory		26,000
 Sep. 18	No Entry		
 Sep. 23	No Entry, because (a) the membership was for 2014 and (b) payment was not made.		

Requirement 2:

a) Rent Receivables	3,600	
Rent Revenue		3,600
<i>Calculations: $\\$7,200 \times 6/12 = \\$3,600$</i>		
b) Depreciation Expense	56,250	
Accumulated Depreciation – Building		37,500
Accumulated Depreciation – Equipment		18,750
c) Wages Expense	30,000	
Wages Payable		30,000
d) Retained Earnings, or "Dividends Declared"	182,000	
Dividends Payable		182,000
<i>Calculations: $\\$1.75 \times (100,000 + 4,000) = \\$182,000$</i>		
e) Prepaid advertising	1,500	
Advertising expense		1,500
f) Insurance Expense	18,000	
Prepaid Insurance	18,000	
<i>Calculation: $18,000 \times 12/12$</i>		
g) Sales Revenue	1,000	
Trade Receivables		1,000
Bad Debt Expense	36,605	
Allowance for Doubtful Accounts		36,605
<i>Calculation: $7\% \times (\\$625,000 - \\$1,000 + \\$65,000) = \\$11,625$</i>		
Interest Expense	900	
Interest Payable		900
<i>Calculations: $\\$108,000 \times 5\% \times 2/12 = \\$2,250$</i>		
Interest Expense (on the Note Payable)	984	
Interest Payable		984
<i>Calculations: $\\$168,750 \times 7\% \times 1/12 = \\984.5</i>		
h) Income tax expense	60,322	
Prepaid income taxes		6,500
Income taxes Payable		53,822

Requirement 3:

Desktop Lighting Inc.
Statement of Earnings
For the year ended September 30, 2014
(\$)

Sales		1,945,625	(1,881,625+65,000-1,000)
Sales returns & allowances		<u>25,375</u>	
Sales, net		1,920,250	
COGS		<u>765,100</u>	(739,100+26,000)
Gross Profit or Gross Margin		1,155,150	
<i>Operating Expenses</i>			
Advertising Expense	1,500		(3,000-1,500)
Insurance Expense	18,000		(10,500+7,500)
Wages Expense	729,125		(699,125+30,000)
Depreciation Expense	56,250		
Bad Debt Expense	36,605		
Total Operating Expense	<u>841,480</u>		
Operating Profit		313,670	
<i>Non-Operating Expense</i>			
Rent Revenue		7,200	(3,600+3,600)
Loss on Sale of Investment		<u>75,000</u>	
Profit before Interest and Taxes		245,870	
Interest Expense		<u>4,584</u>	(2,700+900+984)
Profit before Income Taxes		241,286	
Income Tax Expense		<u>60,322</u>	
Profit		180,965	

Calculations:

a) $\$241,286 \times 25\% = \$60,321.5$

b) $\$180,965 / 104,000 \text{ shares} = \1.74

Requirement 4:

Desktop Lighting Inc.
Partial Statement of Financial Position
As at September 30, 2014

Liabilities***Current Liabilities***

Trade Payables	206,625
Dividend Payable	182,000
Interest Payable	1,884
Wages Payable	30,000
Income Tax Payable	53,822 ^a
Bank Loan	108,000
<i>Total Current Liabilities</i>	<u>582,330</u>

Non-Current Liabilities

Note Payable	168,750
<i>Total Non-Current Liabilities</i>	<u>168,750</u>

Total Liabilities **751,080**

Shareholders' Equity

Share Capital (104,000 shares)	1,323,950
Retained Earnings	1,096,840 ^b
Total Shareholders' Equity	<u>2,420,790</u>

Total Liabilities and Shareholders' Equity **3,171,870**

Calculations:

a) 60,259 – 6,500

b) 1,097,875 - 182,000 + 180,965

QUESTION 3

Requirement 1

Mar. 9	Cash	29,400	
	Sales Discounts	600	
	Trade Receivables.....		30,000
	<i>Calculation: 30,000*2%=600</i>		
Mar. 15	Cash	13,400	
	Sales.....		13,400
Mar. 15	Bank Charges Expense.....	402	
	Cash.....		402
May 10	AFDA.....	32,000	
	Trade Receivables.....		32,000
July 16	Trade Receivables.....	8,000	
	AFDA.....		8,000
July 16	Cash.....	8,000	
	Trade Receivables.....		8,000
July 31	Bad Debts Expense.....	33,000	
	AFDA.....		33,000
	<i>Calculations: (31,000-32,000+8,000=7,000+33,000=40,000)</i>		

Requirement 2

Swift Distributors Ltd.
(Partial) Statement of Financial
Position
As at July 31, 2014

Trade Receivables	\$428,000 ^a
Less: AFDA	<u>40,000</u>
Net Trade Receivables	<u>\$388,000</u>

- a) Trade Receivables: (500,000+30,000-30,000-40,000+40,000-32,000-40,000+8,000-8,000)

Requirement 3

Net Accounts Receivable is not affected when accounts are written off. The decrease in Accounts Receivable is offset by a decrease in the Allowance for Doubtful Accounts. Net Income would also not be affected as the expense for these estimated bad debts was incurred when the allowance was set up during the period in which the revenues were recorded.

PART B

Requirement 1

Bad Debts Expense.....	30,280
AFDA.....	30,280

Calculation: (22,400 beg -28,000 + 3,000 – 27,680 end)

Total Uncollectible 2013:

$$[(220,000*3\%)+(86,000*6\%)+(52,000*12\%)+(22,000*20\%)] =22,400$$

Total Uncollectible 2014:

$$[(240,000*3\%)+(104,000*6\%)+(62,000*12\%)+(34,000*20\%)] =27,680$$

Requirement 2

To answer this question with more accuracy, we would need to determine to what extent the accounts written off in 2014 related to sales made in 2013. If we assume that all of the amounts written off in 2014 related to sales made in 2013, then we can conclude that the allowance at the end of 2013 which was \$22,400 was estimated at too low an amount given that accounts with balances totalling \$25,000 (\$28,000 – \$3,000) were actually written off in 2014. In this case, the company slightly underestimated the uncollectible accounts 2013.