

ADM 2342 X
INTERMEDIATE FINANCIAL ACCOUNTING 1
Spring/Summer 2013
Quiz No. 1
Solutions

..... / 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 (5 marks)

Integra Corporation (IC) sells and leases computers to students. The company started operations on January 1, 2012. Each computer sold carries a one-year warranty with warranty costs estimated to average \$30 per computer. During the most recent year completed, IC purchased 1,000 computers at a cost of \$1,300 each. During the year, IC sold 900 computers for \$1,600 each.

Leases are for a one-year period. If a student leases a computer, the monthly rate is \$40. During the year, IC leased out 235 computers with 175 of the leases starting on January 1 and the remainder starting on July 1. To date, there has been no trouble collecting the monthly payments. During 2012, IC spent \$27,000 on warranty repairs and \$142,000 in operating expenses including payroll. It is now December 31, 2012, the end of their first year of operations.

Required:

Calculate the operating income that would be reported by Integra Corporation for the year ending December 31, 2012. It is not necessary to prepare a formal Statement of Income.

Answer:

Revenues:

<i>Sales of computers (900 x \$1,600)</i>	<i>\$1,440,000</i>
<i>Lease rental revenue (175 x \$40 x 12 months)</i>	<i>84,000</i>
<i>Lease rental revenue (60 x \$40 x 6 months)</i>	<i><u>14,400</u></i>
<i>Total revenues</i>	<i>\$1,538,400</i>

Expenses:

<i>Cost of Goods Sold (900 x \$1,300)</i>	<i>1,170,000</i>
<i>Operating Expenses</i>	<i>142,000</i>
<i>Warranty expenses (900 x \$30)</i>	<i><u>27,000</u></i>
<i>Total expenses</i>	<i>1,341,000</i>

Operating Income *\$ 197,400*

Question No. 2 (2 marks)

Harrow Limited reported a net loss of \$700 during the year ended December 31, 2012. During the year, Harrow had declared dividends of \$800. These dividends were payable January 15, 2013. The balance in the retained earnings account as at December 31, 2012 was \$14,500.

Required:

What was the balance of retained earnings as at January 1, 2012?

Answer:

$$x - \$800 - \$700 = \$14,500$$

Therefore, beginning retained earnings as at January 1, 2012 must have been \$16,000

Question No. 3 (10 marks)

Lambert Company is completing the accounting process for the year just ended, December 31, 2012. All transactions during 2012 have been journalized and posted. However, the following data with respect to adjusting entries have not been recorded:

- (a) Depreciation expense on the office furniture has not yet been recorded for 2012. The furniture has a carrying (book) value of \$8,500 on December 31, 2012 and the balance in the accumulated depreciation account is \$4,500. The furniture had been purchased on July 1, 2011 based upon an estimated useful life of 4 years and a residual value of \$1,000. Lambert uses straight-line depreciation.
- (b) Wages earned during December 2012, but unpaid and unrecorded as at December 31, 2012 amounted to \$2,340. The next pay date will be January 6, 2013.
- (c) Three-quarters of the basement of the store is rented for \$1,100 per month to another merchant, J. Pandora. Pandora sells compatible, but not competitive, merchandise. On December 1, 2012, Lambert collected six months' rent in the amount of \$6,600 in advance from Pandora and credited the amount collected to Unearned Revenue.
- (d) The remaining basement space is rented to an ice cream store called "Dollups" at the rate of \$580 per month, payable monthly. On December 31, 2012, the rent for September, November and December had not been collected. The rent for October was collected. Collection on the outstanding balance is expected on January 4, 2013.
- (e) On September 1, 2012, Lambert paid in cash \$1,500 for a one-year insurance policy and debited the amount to Insurance Expense. Coverage began on September 1, 2012.

Required: (Show all necessary supporting calculations)

Prepare the necessary adjusting entries on the books of Lambert Company as at December 31, 2012. Narrative explanations are not required.

Answer:

a.	Depreciation expense	3,000	
	Accumulated depreciation - furniture		3,000
	[($\$4,500 + \$8,500 - 1,000$)] ÷ 4 years).		
b.	Wages expense	2,340	
	Wages payable		2,340
c.	Unearned rent revenue	1,100	
	Rent revenue		1,100
	Rent earned in 2012 ($\$6,600 \times 1/6$)		
d.	Rent receivable	1,740	
	Rent revenue		1,740
	Recent receivable is $\$580 \times 3$ months		
e.	Prepaid insurance	1,000	
	Insurance expense		1,000
	Balance of prepaid insurance to be set up is $\$1,500 \times 8/12$ months		

Question No. 4 (2 marks)

The records for Oriole Corp. showed the following for 2012:

	<u>Jan. 1</u>	<u>Dec. 31</u>
Unearned revenue	\$3,000	\$3,400
Accrued revenue	1,400	1,100
Cash collected during the year from revenue, \$85,000.		

Required:

Show the calculation of the amount of revenue that should be reported on the 2012 Statement of Income.

Answer:

$$\$85,000 + \$3,000 - \$3,400 - \$1,400 + \$1,100 = \underline{\underline{\$84,300}}$$

Question No. 5 (6 marks)

Answer the following six (6) multiple choice questions. Circle the most appropriate answer. Only one answer will be accepted per question. There is no penalty for guessing.

1. During the lifetime of an entity, accountants produce financial statements at arbitrary points in time in accordance with the
 - a) full disclosure principle.
 - b) periodicity assumption.
 - c) going concern assumption.
 - d) economic entity assumption.

2. The assumption that a business enterprise will not be sold or liquidated in the near future is known as the
 - a) economic entity assumption.
 - b) monetary unit assumption.
 - c) fair value principle.
 - d) going concern assumption.

3. Valuing assets at their liquidation values rather than their cost is inconsistent with the
 - a) periodicity assumption.
 - b) historical cost principle.
 - c) matching principle.
 - d) economic entity assumption.

4. Which of the following is not a good example of the matching principle?
 - a) A machine that produces certain goods is depreciated over its useful life. The depreciation expense is matched with the proceeds from the sale of those goods.
 - b) The entire amount of a two-year insurance premium is expensed in the first year.
 - c) An uncollectible receivable is written off in the year that the sale was made.
 - d) Recognition of revenue for which associated expenses cannot yet be determined is delayed until such determination can be made.

5. Use of an allowance for doubtful accounts is an application of the
 - a) matching principle.
 - b) revenue recognition principle.
 - c) historical cost principle.
 - d) full disclosure principle.

6. The operations of a resource company's oil sands operations results in environmental damage. While the extent of the damage cannot be determined at this time, the situation is disclosed in its financial statements. This best demonstrates
 - a) the application of professional judgement.
 - b) the full disclosure principle.
 - c) representational faithfulness.
 - d) good management stewardship.

Answer:

1 (b); 2 (d); 3 (b); 4 (b); 5 (a); 6(b)