



**Required 2 (13 marks):**

Each ✓ is worth 1/2 mark for both the account name and the dollar amount, unless otherwise indicated. 27 ✓ x 1/2 = 13.5 marks (Maximum 13 marks).

Interest Receivable✓                      \$600✓  
    Interest Income/Revenue✓                      \$600

*Calculation: 30000\*4%=1,200 per year*

*1,200\*6/12=600*

Depreciation Expense✓                      \$11,250  
    Accumulated Depreciation - Building✓                      \$7,500  
    Accumulated Depreciation - Equipment✓                      \$3,750

Wages Expense✓                      \$8,000  
    Wages Payable✓                      \$8,000

Retained earnings, or "Dividends"✓                      \$17,500  
    Dividends payable✓                      \$17,500

Bad debts expense✓                      \$750✓  
    Allowance for doubtful accounts✓                      \$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*

Membership Expense√	\$80
Prepaid Membership√	\$80

Income tax expense√	\$10,610 (see income statement)
Prepaid income taxes√	\$1,300
Income taxes Payable√	\$9,310

**Required 3 (11 marks):**

Each ✓ is worth 1/2 mark. 24 ✓ x 1/2 = 12 marks (Maximum 11 marks)

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

Sales Revenue ✓	\$406,250✓
Less: Sales Returns and Allowances✓	<u>\$5,500</u>
Net Sales✓	\$400,750
Cost of Goods Sold✓	<u>\$173,250✓</u>
Gross Profit <i>or</i> 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
	<u>\$185,510</u>
<i>Operating Profit or Profit from Operations</i> ✓	\$41,990
Other Revenue and expenses	
Interest Income <i>or</i> Int. Revenue✓	<u>\$600</u>
<i>Profit Before interest and taxes</i>	42,590
Interest Expense✓	(\$150)
<i>Profit before Income Taxes</i> ✓	\$42,440
Income Tax Expense✓	<u>\$10,610 (42,440 * 25%)</u>
<b>Profit</b> ✓	<b>\$31,830</b>
Earnings per Share (31,830/10,000) ✓	\$3.18✓

**Required 4 (10 marks):**

Each ✓ is worth 1/2 mark. 22 ✓ x 1/2 = 11 marks (Maximum 10 marks)

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 ✓
<i>Total Current Liabilities</i> ✓	<i>\$90,260</i>

*Non-Current Liabilities* ✓

Note Payable ✓	\$30,000
<i>Total Non-Current Liabilities</i>	<i>\$30,000</i>

**Total Liabilities** ✓ **\$120,260**

**Shareholders' Equity**

Share Capital (10,000 shares) ✓	\$250,000
Retained Earnings* ✓	\$233,330 ✓

\*Calculations:  $(219,000 + 318830 - 17500 \checkmark \checkmark) = 233,330$

*Total Shareholders' Equity* ✓ *\$483,330*

**Total Liabilities and Shareholders' Equity** ✓ **\$603,590**

**Required 5 (7 marks):**

Each ✓ is worth 1/2 mark. 14 ✓ x 1/2 = 7 marks

**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)

Each ✓ is worth 1/2 mark for both the account name and the dollar amount, unless otherwise indicated.  $18 \checkmark \times 1/3 = 6$  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 (4 marks)

Each ✓ is worth 1/2 mark.  $8 \checkmark \times 1/2 = 4$  marks.

Desirable balance of Allowance for Doubtful Accounts as at December 31, 2012 =  
 $\$55,000 \checkmark \times 3\% = 1,650$

Desirable balance of Allowance for Doubtful Accounts as at December 31, 2013 =  
 $(\$51,000^a \checkmark - 1,000^b \checkmark) = 50,000^c \times 3.5\% = 1,750$

Bad Debt Expense of 2013:

$$1,650^d \checkmark + 600^e \checkmark - 1,000^b \checkmark + X = 1,750^f \checkmark$$

$$X = 500 \checkmark$$

Note:

- The balance of Trade Receivable as at November 30, 2013.
- The amount of write-off (December 17).
- The balance of Trade Receivable as at December 31, 2013.
- The balance of Allowance for Doubtful Accounts as at December 31, 2012.
- The amount of recovery (December 27).
- The balance of Allowance for Doubtful Accounts as at December 31, 2013.

**Required 3 (5 marks)**

Each ✓ is worth 1/2 mark. 10 ✓ x 1/2 = 5 marks.

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

Note:

- The balance of Net Credit Sales as at November 30, 2013.
- The amount of credit sales (December 2).
- The amount of sales returns related to credit sales (December 4).
- The amount of sales discount (December 12).
- 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
- 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 (5 marks)**

Each ✓ is worth 1/2 mark for both the account name and the dollar amount, unless otherwise indicated. 10 ✓ x 1/2 = 5 marks.

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

Note:

- The balance of Allowance for Doubtful Accounts as at December 31, 2012.
- 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 31<sup>st</sup>, 2013✓

**Assets**

*Current Assets*✓

..

Trade Receivable✓	\$50,000
Less: Allowance for Double Accounts✓	<u>4,643</u>
Trade receivable, net✓	45,357✓