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VOTRE LIEN AVEC CE QUI COMPTE — CONNECTS YOU TO WHAT MATTERS

ADM 2342A
INTERMEDIATE FINANCIAL ACCOUNTING 1
Fall 2016
Competency Quiz (Quiz No. 1)
Solutions

.... / 30 marks

NAME: ______________________________

STUDENT #: __________________

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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 (6 marks)

The following three situations are unrelated:

(a) On December 10, 2015, Trenton Company received a cash deposit of $90,000 on a consulting project that was just about to begin. The amount received was recorded as consulting revenue. By December 31, 2015, the $150,000 job was 40% complete.

(b) On July 1, 2015, Picton Company paid a three-year insurance premium amounting to $2,160. This amount was debited to prepaid insurance.

(c) On June 1, 2015, Exeter Company collected cash in the amount of $12,600. This represented rent collected in advance from a tenant for the next 12 months. The amount received was credited to unearned rent revenue.

Required: (Show all required supporting calculations)

Prepare the required adjusting entry on December 31, 2015 for each situation. Each debit and credit entry is worth 1 mark. You must have the correct account and amount to earn each mark.

Answer:

(a)

Consulting Revenue	*30,000*	
Unearned Revenue		*30,000*
$150,000 x 40% = $60,000; $90,000 – $60,000 = $30,000		

(b)

Insurance Expense	*360*	
Prepaid Insurance		*360*
$2,160 x 6/36 = $360		

(c)

Rent Collected in Advance/Unearned Revenue	*7,350*	
Rent Revenue		*7,350*
$12,600 x 7/12 = $7,350		

Question No. 2 (3 marks)

Required:

Under the Canadian conceptual framework, name the two fundamental qualitative characteristics of accounting information and the four enhancing qualitative characteristics of accounting information.

Answer:

Fundamental characteristics: *relevance and representational faithfulness;*
Enhancing characteristics: *comparability, verifiability, timeliness, and understandability;*

Question No. 3 (6 marks)

Juneau Corporation has a December 31 year-end. At year-end, before any adjusting entries were recorded, the balance in the Allowance for Doubtful Accounts showed a credit balance of $600.

Required: (Narrative explanations are not required).

(a) Assuming that management at Juneau has decided that an account receivable in the amount of $900 is to be written off. Prepare the corresponding journal entry on December 31, 2015 to record the write-off. (2 marks)

(b) During 2015, the bad debts journal entry was estimated and recorded at three-quarters of 1% of net credit sales. Net sales for 2015 were $187,500 of which 80% were on account. Taking into account the write-off from part (a) above, management has estimated that the allowance for doubtful accounts requires an ending balance on December 31, 2015 of $15,300. Prepare the necessary adjusting entry to record bad debts expense on December 31, 2015. (4 marks)

Answer:

(a)	*Allowance for Doubtful Accounts..................*	*900*	
	Accounts Receivable...........................		*900*

(b)	*ADA credit balance, January 1, 2015*	*$ 600*
	Bad debt expense accrual [.0075 x ($187,500 x 0.8)]	*1,125*
		1,725
	Uncollectible receivables written off	*(900)*
	Balance, December 31, 2015 before adjustment	*825*
	Required ADA credit balance, December 31, 2015	*15,300*
	Adjustment required for ADA	*$ 14,475*

Bad Debt Expense...	*14,475*	
Allowance for Doubtful Accounts.............................		*14,475*

Question No. 4 (6 marks)

Hauser Corporation uses the perpetual inventory system and had the following information available:

		Units	Unit Cost	Total Cost
Jan 1	Beginning inventory	15	$4.00	$ 60
20	Purchase	60	4.40	264
21	Sale	65	-	-
Jul 25	Purchase	30	4.20	126
Oct 20	Purchase	45	4.80	216
Nov 15	Sale	75	-	-

Required:

Fill in the missing information for each of the following three independent statements:

(a) Assume that the company uses the moving average cost method. The cost of goods sold for the Jan 21 sale was $__________. (Use unrounded numbers in your intermediary calculations but round to the nearest cent for presentation purposes in your answer.)

(b) Assume that the company uses the moving average cost method. The value of the inventory after the Nov 15 sale was $__________. (Use unrounded numbers in your intermediary calculations but round to the nearest cent for presentation purposes in your answer.)

(c) Assume that the company uses the FIFO cost method. The value of the inventory after the Oct 20 purchase is $__________.

Question No. 4 (6 marks) (continued)

Answer:

(a) *Cost of Goods Sold (average): ($60 + $264) = $324 ÷ 75 = $4.32 per unit*

Sold 65 units @ $4.32 = $280.80

(b) *Inventory (average): $60 + $264 – $280.80 (see (b) above) + $126 + $216 = $385.20*
$385.20 ÷ (15 + 60 – 65 + 30 + 45) = $4.53 (rounded) per unit

10 units on hand (85 – 75) @ $4.53 (rounded) = $45.32 (using unrounded numbers in calculation)

(c) *Inventory (FIFO): $386.00*

After the Jan 21 sale 10 units x $4.40 =	*$ 44.00*
Jul 25 purchase 30 units x $4.20 =	*126.00*
Oct 20 purchase 45 units x $4.80 =	*216.00*
Value of inventory	*= $386.00*

Question No. 5 (9 marks)

Redwood Limited is a public company based in Vancouver. After two years of losses and heavy competition, Redwood put into place a plan to sell its Industrial Design Division. The Industrial Design Division qualifies for treatment as a discontinued operation. At the end of 2016, the plan was finalized and approved by the Board of Directors. The sale is anticipated to be completed by June 30, 2017.

Other information: (all amounts below are presented on a before-tax basis)

1. Redwood's income from continuing operations was $750,000.
2. During 2016, the Industrial Design Division reported revenues of $50,000 and expenses of $250,000.
3. Management estimates that legal and audit fees of $53,000 as well as severance payments of $110,000 will be required to finalize the disposal plan. These costs are expected to be offset by the proceeds of $102,000 from the sale of the division's assets.
4. Common dividends declared and paid during 2016 were $80,000. The weighted average number of shares outstanding during 2016 was 600,000.

Required:

Assuming Redwood has a 40% tax rate, prepare a partial Income Statement for Redwood for the year ending December 31, 2016 beginning with the line "income from continuing operations before income tax". Include any required disclosures.

Question No. 5 (9 marks) (continued)

Answer:

Redwood Limited
Partial Income Statement
For the Year Ended December 31, 2016

Income from continuing operations before income tax		*$750,000*
Income tax		*300,000*
Income from continuing operations		*450,000*
*Discontinued operations**		
Loss from operations of the discontinued Industrial Design Division (net of tax savings of $80,000 [1])	*($120,000)*	
Loss from disposal of Industrial Design Division (net of tax savings of $24,400 [2])	*(36,600)*	*(156,600)*
Net income		*$293,400*

Earnings per share:

Continuing operations:	*$450,000 ÷ 600,000*	*$ 0.750*
Discontinued operations	*($156,600) ÷ 600,000*	*(0.261)*
Net income	*$293,400 ÷ 600,000*	*$ 0.489*

* *Necessary Footnote:*
On December 31, 2016, due to continued losses, the Board of Directors unanimously approved management's plan to dispose of the Industrial Design Division. The sale is anticipated to be completed by June 30, 2017.

[1] *The loss from operations of the division is comprised of the following items:*

Revenues	*$ 50,000*
Expenses	*(250,000)*
	$(200,000)

Tax savings = ($200,000) x 40% = $80,000

[2] *The loss relating to the disposal of the division is comprised of the following items:*

Proceeds from sale of assets	*$102,000*
Less: legal and audit fees	*(53,000)*
Less: severance payments to staff	*(110,000)*
	$(61,000)

Tax savings = ($61,000) x 40% = $24,400