

ADM2342A Fall 2012

Student Name _____

Quiz #2

Student ID: _____

[marked out of 20 for convenience: worth 5% of ADM2342A 's course mark]

Question 1 (10 Marks)

The Controller of Ottawa All Stars Ltd has provided you with the following information:

Ottawa All Stars Ltd
 Income Statement
For the Year Ended December 31, 2012

Net Sales		620,000
Cost of Goods Sold		<u>200,000</u>
Gross Profit		420,000
Operating expenses (including depreciation expense of \$65,000)		<u>410,000</u>
Income from operations		10,000
Other revenues and expenses		
Gain on sale of equipment	30,000	
Interest expense	<u>40,000</u>	<u>10,000</u>
Income before income taxes		0
Income taxes		<u>0</u>
Net income		<u><u>0</u></u>

Ottawa All Stars Ltd
 Comparative Account Information Relating to Operations
At December 31

	2012	2011
Accounts receivable	56,000	40,000
Prepaid insurance	5,000	6,000
Inventory	12,000	20,000
Accounts payable	59,000	47,000
Interest payable	600	1,500
Income taxes payable	4,200	6,000
Unearned revenue	20,000	14,000

Required

Prepare a statement of cash flows (for the company's operating activities only), in good form, for the year ended December 31, 2012 using the *indirect* format.

Ottawa All Stars Ltd
 Partial Statement of Cash Flows
 For the Year Ended December 31, 2012

Cash flows from operating activities

Net income		\$ 0
Adjustments:		
Gain on sale of equipment	(30,000)	
Depreciation expense	65,000	
Increase in accounts receivable	(16,000)	
Decrease in prepaid insurance	1,000	
Decrease in inventory	8,000	
Increase in accounts payable	12,000	
Decrease in interest payable	(900)	
Decrease in income taxes payable	(1,800)	
Increase in unearned revenue	<u>6,000</u>	
Net cash provided by operating activities		<u>\$ 43,300</u>

Question 2 (10 Marks)

Pod Builders contracted to build a high-rise for \$12,000,000. Construction began in 2011 and is expected to be completed in 2014. Data for 2011 and 2012 are:

	<u>2011</u>	<u>2012</u>
Costs incurred	\$1,800,000	\$3,400,000
Estimated costs to complete	7,200,000	4,800,000

Pod uses the percentage-of-completion method.

Required

Under the earnings approach

- (a) How much gross profit should be reported for 2011? Show your calculation.
- (b) How much gross profit should be reported for 2012? Show your calculation.
- (c) Make the journal entry to record the revenue and gross profit for 2012.

(a) $\frac{\$1,800,000}{\$9,000,000} \times \$3,000,000 = \underline{\underline{\$600,000}}$

(b) $\frac{\$5,200,000}{\$10,000,000} \times \$2,000,000 = \$1,040,000$

Less 2011 gross profit	<u>600,000</u>
Gross profit in 2012	<u>\$ 440,000</u>

(c)

Construction in Process	440,000	
Construction Expenses	3,400,000	
Revenue from Long-term Contracts		3,840,000