

Problem 1: Journal Entries and Financial Statements: (52.5 marks) 75 minutes:

MGC Inc. is a company that was created in 2001. It specializes in the manufacturing and sales of clothing merchandise and has been steadily growing since 2001. The unadjusted trial balance for MGC Inc. on December 1, 2016 is presented below along with the account balances at January 1, 2016. MGC's fiscal year end is at December 31, 2016. MGC's accountant attempted to adjust some accounts throughout the year.

MGC INC.				
<u>Account Name</u>	Unadjusted Trial Balance December 1, 2016		Balance as at January 1, 2016	
	Debit	Credit	Debit	Credit
Cash	\$115,000		\$74,000	
Trade Receivables	56,000		50,000	
Allowance for doubtful accounts	2,000			\$4,000
Prepaid Insurance	12,000		12,000	
Inventory	120,000		100,000	
Land	750,000		150,000	
Buildings	700,000		330,000	
Accumulated depreciation – Buildings		\$186,000		176,000
Equipment	300,000		300,000	
Accumulated Depreciation – Equipment		129,000		120,000
Note Payable (due in 5 years, 7.2% interest)		500,000		0
Common shares – issued and outstanding		730,000		564,000
Retained earnings		152,000		152,000
Rent revenue		44,000		0
Sales revenue		683,000		0
Cost of Sales	168,000		0	
Interest expense	36,000		0	
Utilities expense	56,000		0	
Salaries expense	90,000		0	
Depreciation expense - equipment	9,000		0	
Depreciation expense - buildings	10,000		0	
	\$2,424,000	\$2,424,000	\$1,016,000	\$1,016,000

Transactions that occurred during December 2016 and additional information necessary for preparation of MGC Inc.'s financial statements at year end:

- 1) On December 4, 2016 MGC purchased on account, \$25,000 worth of inventory from supplier Delphi Inc. The conditions of the purchase were 2/10 n/30, FOB shipping point. Delivery occurred on the same day by the company WeDeliver Inc. and amounted to \$500 which was paid in cash.
- 2) On December 8, MGC sold clothing to retailer Paquin Corp. for \$135,000 on account with conditions 2/5 n/30. The sale conditions are FOB destination with delivery by WeDeliver Inc. amounting to \$1,500, paid in cash. The gross profit percentage for MGC on this sale transaction was 75%.
- 3) On December 12, 2016 MGC received a full payment from Paquin Corp. for the sale transaction on December 8, 2016 (from (2) above).
- 4) On December 13, 2016 MGC paid Delphi Inc. the amount due for the purchase on December 4, 2016 (from (1) above).
- 5) The 2016 annual depreciation expense for MGC's buildings amounts to \$20,000.
- 6) The equipment has an annual depreciation expense of \$18,000.
- 7) Insurance expired during the year was \$5,300.
- 8) The rental revenue is the amount received for 11 months for dining facilities. The rent for December has not yet been received.
- 9) It is estimated that 8% of the trade receivables will be uncollectible.
- 10) Salaries earned but not paid by December 31 amounted to \$9,600.
- 11) MGC's accountant included in the sales revenue account \$9,900 that were paid in advance by customers for products that will be delivered in 2017.
- 12) MGC Inc. has a 25% income tax rate.
- 13) MGC declared \$100,000 in dividends on December 31, 2016, payable on January 15, 2017.
- 14) MGC had 14,000 common shares issued and outstanding as at January 1, 2016. MGC Inc. issued 6,000 additional common shares in October 2016 in exchange for cash.
- 15) The accountant for MGC incorrectly recorded the 2016 annual interest expense on November 30, 2016.

Required: show all your calculations and

- a) Prepare the journal entries to record the transactions that occurred in December 2016 and prepare the adjusting entries at December 31, 2016 (18 marks).
- b) Prepare a multiple step statement of earnings for MGC's year ended December 31, 2016 (11.5 marks).
- c) Prepare a classified statement of financial position for MGC as at December 31, 2016 (17.5 marks).

- d) Calculate and interpret the following ratios for MGC: Return on Assets, Return on Equity, Total Asset Turnover. Limit your interpretation to one statement per ratio. (5 marks)
- e) If the Total Asset Turnover was 0.68 on December 31, 2015, what could have caused the change between the result you arrived at in (e) above and that of 2015? Limit your answer to one statement. (0.5 marks)

Problem 2:**Question 2: Journal Entries and Financial Statements: (53 marks; 95 minutes)**

DND Corporation was created on September 1, 2016. The following transactions occurred during September 2016:

Date	Description
Sept. 1	DND was created by a group of investors who invested a total amount of \$32,000 cash in exchange for 1,000 shares.
2	Employed a receptionist and one employee. The monthly salaries are \$1,400 for the receptionist and \$2,000 for the employee, payable at the end of the month.
3	Equipment was purchased on account from MIGK, Ltd. for \$12,500.
3	An amount of \$1,300 was paid to rent office space for the months of September and October 2016. This amount does not include utilities which are fixed at \$70 per month and payable on October 31, 2016.
4	Purchased from KM Corp. merchandise inventory on account for \$10,000, terms 2/10, n/30.
5	Purchased supplies for cash, \$900.
10	Paid KM Corp. for the inventory purchases made on September 4, 2016.
11	Sold products to TBC, Inc. for \$6,000 in cash and \$2,000 on account; terms 1/10, n/30. The cost of the products was \$3,700.
13	Received the amount due from TBC, Inc.
14	Sold products to MTL Corp. for \$8,800 on account; terms 1/10, n/30. The cost of the products sold was \$3,400.
17	Paid MIGK, Ltd. the amount due for the equipment purchased on September 3, 2016.
18	MTL Corp. returned half the products due to a mistake made by DND's employee. The products sold to MTL are identical items.
19	Miscellaneous expenses totaled \$200 and will be paid next month.
30	Paid the amounts due to the employees.

Additional Information:

- Depreciation for the equipment for September amounted to \$200.
- Supplies on hand at September 30 had a cost of \$570.
- The income tax rate for DND is at 20%.
- DND Corporation uses a perpetual inventory system.

Required: (Show your work)

- a) Prepare the journal entries to record the transactions above. (Hint: you may want to set up T-accounts to keep track of account balances.) **(19 marks)**

It is September 30, 2016 and DND is preparing its financial statements:

- b) Prepare the adjusting entries at September 30, 2016. **(6 marks)**
- c) Prepare the statement of earnings for DND Corporation for the month of September 2016. **(10.5 marks)**
- d) Prepare the **Liabilities and Shareholders' Equity** section **ONLY** of the statement of financial position for DND Corporation as at September 30, 2016. **(6.5 marks)**
- e) What is the purpose of “closing the books” at the end of an accounting period? If DND Corporation were to close its books at September 30, which accounts should be closed. List the account titles but do **not** prepare closing entries. **(4 marks)**
- f) If the miscellaneous expenses were recorded as \$100 instead of \$200, how would this error affect net earnings? If there is an effect on net earnings, calculate the revised net earnings amount. **(2 marks)**
- g) Calculate the following ratios, explain and interpret your results: Gross Profit Percentage, Net Profit Margin and Return on Assets. **(5 marks)**

Problem 3:

I. Journal Entries and Financial Statements: (Chapter 6 is tested in this question)

On January 1, 2015, Carly and Carl formed ABC Company, a computer sales and service company, by investing \$90,000 in cash. A total of 1,800 shares in ABC were issued and the shares were split equally among Carly and Carl. ABC also borrowed \$10,000 from the local bank; the loan is to be paid in 2018. The interest on the loan is due every 6 months. ABC had the following transactions in January 2015:

- 1) January 1: Paid \$6,000 in advance for three months' rent of space for its store.
- 2) January 1: Purchased office equipment (desks and chairs) for \$5,000 in cash.
- 3) January 1: Purchased 50 personal computers at a cost of \$1,500 each. The computers were purchased from supplier A and were paid for in cash.
- 4) January 4: Purchased from Supplier B, on account, 50 printers at a cost of \$450 each. The terms of the purchase were 2/10, n/30.
- 5) January 5: Sold 40 personal computers for \$2,550 each to a local university. The terms of the sale were 2/10, n/30.
- 6) January 14: Sold on account 39 printers for \$750 each to a copy/printing store.
- 7) January 14: The local university paid its outstanding balance in full.
- 8) January 14: Paid Supplier B the full balance due.
- 9) January 16: Issued 1,000 shares for \$50 a share. Carly and Carl purchased the shares in equal quantities and they paid for the shares in cash.
- 10) January 31: Employees had earned \$12,600 in salaries. A portion was paid on January 31, 2015 and the remaining \$3,000 is to be paid during February, 2015.
- 11) January 31: A total of \$20,000 was still outstanding in accounts receivable.
- 12) January 31: Dividends of \$2,000 were declared.
- 13) Other operating expenses of \$8,400 were incurred and paid for during January.
- 14) Depreciation expense for the period amounted to \$1,500.

Additional Information:

- i. ABC's tax rate is 30%.
- ii. Estimated uncollectible receivables are 10% of the outstanding balance.
- iii. Interest on the loan for the month of January amounted to \$25.
- iv. ABC closes its books on a monthly basis and uses a perpetual inventory system and the FIFO inventory costing method.

Required:

- a) Record all of the journal entries for the transactions that occurred in January 2015. (21 marks)
- b) Record any adjusting entries at January 31, 2015. (5 marks)
- c) Prepare the Statement of Earnings for January 2015. (10 marks)

- d) Prepare the Statement of Financial Position as at January 31, 2015. (16 marks)
- e) Record the closing entries at January 31, 2015. (4.5 marks)
- f) Compute the Current Ratio, Net Profit Margin and Return on Equity ratios. What do the results you arrive at tell you about ABC Company? (11 marks)