

ADM2342 Winter 2012

Student Name _____

Quiz #1

Student ID: _____

[marked out of 30 for convenience: worth 5% of ADM2342M 's course mark]

Question 1 (8 marks)

Both ASPE and IFRS require *revenues* to be displayed in the income statement. In the boxes below: list five other items required in an income statement prepared in accordance with ASPE; list three other items required in an income statement prepared in accordance with IFRS;

ASPE	IFRS
<i>revenues</i>	<i>revenues</i>

Solution: see page 160 of your textbook.

Items Required in the Income Statement	
Private entity GAAP	IFRS
<ul style="list-style-type: none"> • revenues • amount of inventories recognized as expense for the period • income from investments • government assistance • amortization • impairment • compensation costs • exchange gains or losses • interest expense • unusual items • non-controlling interest • income taxes • discontinued operations, net of tax 	<ul style="list-style-type: none"> • revenues • finance costs • share of profits/loss for investees accounted for under the equity method • tax • discontinued operations, net of tax • each component of other comprehensive income, net of tax • share of other comprehensive income for investees accounted for under the equity method, net of tax • profit or loss attributable to non-controlling interests and owners of the parent

Question 2 (5 marks)

Explain the difference between *revenues* and *gains*. Provide an example of each for a company of your choice,

You are not expected to provide a solution of the following length – it is provided for educational purposes: see 159/160 of your text.

“Revenues. Increases in economic resources, either by:

1. Inflows
2. Enhancements of an entity's assets
3. Settlements of liabilities resulting from the entity's ordinary activities

Gains. Increases in equity (net assets) from peripheral or incidental transactions of an entity and from all other transactions and other events and circumstances affecting the entity during a period except those that result from revenues or investment by owners

Revenues take many forms, such as sales, fees, interest, dividends, and rents. **Expenses** also take many forms, such as cost of goods sold, amortization, interest, rent, salaries and wages, and taxes. **Gains** and **losses** also are of many types, resulting from the sale of investments, sale of plant assets, settlement of liabilities, and writeoffs of assets due to obsolescence, casualty, and/or theft.

The **distinction** between revenues and gains (and expenses and losses) depends to a great extent on how the enterprise's **ordinary** or typical business activities are defined. It is therefore critical to understand an enterprise's typical business activities. For example, when McDonald's sells a hamburger, the selling price is recorded as **revenue**. However, when McDonald's sells a deep fryer machine, any excess of the selling price over the book value would be recorded as a **gain**. This difference in treatment results because the hamburger sale is part of the company's regular operations while the deep fryer sale is not. Only when a manufacturer of deep fryers sells a fryer, therefore, would the sale proceeds be recorded as **revenue**.

The importance of properly presenting these elements should not be underestimated. For many decision-makers, the **parts of a financial statement may be more useful than the whole**. A company must be able to generate cash flows from its **normal ongoing core business activities** (revenues minus expenses) in order to survive and prosper. Having income statement elements shown in some detail and in a format that shows the data from prior years allows decision-makers to better assess whether a company does indeed **generate cash flows** from its normal ongoing core business activities and **whether it is getting better or worse at it.**"

Question 3 (13 marks)

The trial balance of Many Happy Returns Company, a sole proprietorship, does not balance. Your review of the ledger reveals the following: (a) each account had a normal balance; (b) the debit footings (totals) in Prepaid Insurance, Accounts Payable, and Property Tax Expense were each understated by \$200; (c) transposition errors were made in Accounts Receivable and Service Revenue, and the correct balances are \$3,290 and \$8,860, respectively; (d) a debit posting to Advertising Expense of \$300 was omitted; and (e) a \$1,500 cash drawing by the owner was debited to Happy Tremblay, Capital, and credited to Cash.

MANY HAPPY RETURNS COMPANY
Trial Balance
April 30, 2010

	Debit	Credit
Cash	\$ 4,800	
Accounts Receivable	3,920	
Prepaid Insurance	700	
Equipment		\$ 8,000
Accounts Payable		4,500
Property Tax Payable	560	
Happy Tremblay, Capital		11,200
Service Revenue	8,680	
Salaries Expense	4,200	
Advertising Expense	1,100	
Supplies Expense		1,330
Property Tax Expense		800
	\$23,960	\$25,830

Required

Prepare a correct trial balance.

MANY HAPPY RETURNS COMPANY
Trial Balance
April 30, 2010

	<u>Debit</u>	<u>Credit</u>
Cash	\$ 4,800	
Accounts Receivable	3,290	
Prepaid Insurance (\$700 + \$200)	900	
Equipment	8,000	
Accounts Payable (\$4,500 – \$200)		\$ 4,300
Property Tax Payable		560
Happy Tremblay, Capital (\$11,200 + \$1,500)		12,700
Happy Tremblay, Drawings	1,500	
Service Revenue		8,860
Salaries Expense	4,200	
Advertising Expense (\$1,100 + \$300)	1,400	
Supplies Expense	1,330	
Property Tax Expense (\$800 + \$200)	<u>1,000</u>	
	<u>\$26,420</u>	<u>\$26,420</u>

Question 4 (4 marks)

Reach Out Card Company Limited Corporation reported the following for 2011: net sales \$1,200,000; cost of sales \$750,000; selling and administrative expenses \$320,000; gain from the disposal of property \$250,000; and unrealized holding gains on investments designated as gains/losses through other comprehensive income \$18,000.

Required

Prepare a multi-step statement of comprehensive income. Ignore taxes and EPS.

Reach Out Card Company Limited
Statement of Comprehensive Income
For the Year Ended December 31, 2011

Net sales		\$1,200,000
Cost of goods sold		<u>750,000</u>
Gross profit		450,000
Operating expenses		
Selling and administrative expenses		320,000
Other revenues and gains		
Gain on property disposal		<u>250,000</u>
Net income		380,000
Other comprehensive income		
Unrealized holding gains		<u>18,000</u>
Comprehensive income		<u>\$398,000</u>