

ADM 2342 X
INTERMEDIATE FINANCIAL ACCOUNTING 1
Spring/Summer 2012
Quiz No. 1
Solutions

..... / 25 marks

NAME: _____

STUDENT #: _____

Statement of Academic Integrity:

The School of Management does not condone academic fraud, an act by a student that may result in a false academic evaluation of that student or of another student. Without limiting the generality of this definition, academic fraud occurs when a student commits any of the following offences: plagiarism or cheating of any kind, use of books, notes, mathematical tables, dictionaries or other study aid unless an explicit written note to the contrary appears on the exam, to have in his/her possession cameras, radios (radios with head sets), tape recorders, pagers, cell phones, or any other communication device which has not been previously authorized in writing.

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 (5 marks)

Keyboard Strokes Corporation (KSC) sells and leases computers to students. The company started operations on January 1, 2011. Each computer sold carries a one-year warranty with warranty costs estimated to average \$20 per computer. During the most recent year completed, KSC purchased 1,000 computers at a cost of \$1,200 each. During the year, KSC sold 800 computers for \$1,500 each.

Leases are for a one-year period. If a student leases a computer, the monthly rate is \$50. During the year, KSC leased out 150 computers with 100 of the leases starting on January 1 and the remaining 50 leases starting on July 1. To date, there has been no trouble collecting the monthly payments. During 2011, KSC spent \$16,000 on warranty repairs. It is now December 31, 2011, the end of their first year of operations.

Required:

Calculate the operating income that would be reported by Keyboard Strokes Corporation on its Income Statement for the year ending December 31, 2011. Ignore income taxes. It is not necessary to prepare an Income Statement.

Answer:

Revenues:

<i>Sales of computers (800 x \$1,500)</i>	<i>\$1,200,000</i>
<i>Lease rental revenue (100 x \$50 x 12 months)</i>	<i>60,000</i>
<i>Lease rental revenue (50 x \$50 x 6 months)</i>	<i><u>15,000</u></i>
<i>Total revenues</i>	<i>\$1,275,000</i>

Expenses:

<i>Cost of Goods Sold (800 x \$1,200)</i>	<i>960,000</i>
<i>Warranty expenses (800 x \$20)</i>	<i><u>16,000</u></i>
<i>Total expenses</i>	<i>976,000</i>

Operating Income *\$ 299,000*

Question No. 2 (2 marks)

Pai Gow Limited reported beginning retained earnings on January 1, 2011 of \$16,000 and declared but did not pay dividends of \$800 during the year.

Required:

If the ending retained earnings balance on December 31, 2011 was also \$16,000, calculate the amount of net income that was earned, or the loss that was incurred, during the year.

Answer:

$$\$16,000 - \$800 + ? = \$16,000$$

Therefore, net income must have been \$800.

Question No. 3 (10 marks)

Crawford's Department Store is completing the accounting process for the year just ended, December 31, 2011. All transactions during 2011 have been journalized and posted. However, the following data with respect to adjusting entries have not been recorded:

- (a) Office supplies inventory at January 1, 2011 was \$250. Office supplies purchased and debited to the Office Supplies Inventory account during the year amounted to \$600. The year-end inventory showed \$300 of supplies on hand.
- (b) Wages earned during December 2011, unpaid and unrecorded at December 31, 2011 amounted to \$2,700. The next pay date will be January 6, 2012.
- (c) Three-quarters of the basement of the store is rented for \$1,100 per month to another merchant, J. Kardashian. Kardashian sells compatible, but not competitive, merchandise. On November 1, 2011, the store collected six months' rent in the amount of \$6,600 in advance from Kardashian and credited the amount to Unearned Revenue.
- (d) The remaining basement space is rented to Rita's Specialty Shoppe for \$520 per month, payable monthly. On December 31, 2011, the rent for November and December had not been collected. Collection is expected on January 10, 2012.
- (e) On September 1, 2011, a one-year insurance premium amounting to \$1,500 was paid in cash and debited to Prepaid Insurance. Coverage began on September 1, 2011.

Required:

Prepare any necessary adjusting entries, where necessary, as at December 31, 2011. Show supporting computations and use proper format. Narrative explanations are not required.

Answer:

a.	Office supplies expense	550	
	Office supplies inventory		550
	Supplies used in 2011 ($\$250 + 600 - 300 = \550).		
b.	Wages expense	2,700	
	Wages payable		2,700
c.	Unearned rent revenue	2,200	
	Rent revenue		2,200
	Rent earned in 2011 ($\$6,600 \times 2/6$)		
d.	Rent receivable	1,040	
	Rent revenue		1,040
	Recent receivable is $\$520 \times 2$ months		
e.	Insurance expense	500	
	Prepaid insurance		500
	Amount of prepaid insurance expired is $\$1,500 \times 4/12$ months		

Question No. 4 (2 marks)

Required:

Refer back to Question No. 3. For the transaction in part (e) dealing with the one-year insurance premium, record the adjusting entry required if the \$1,500 cash received was initially debited to Insurance Expense and not to the Prepaid Insurance account.

Answer:

<i>Prepaid insurance</i>	<i>1,000</i>	
<i>Insurance expense</i>		<i>1,000</i>
<i>Balance of prepaid insurance to be set up is \$1,500 x 8/12 months</i>		

Question No. 5 (6 marks)

Answer the following six (6) multiple choice questions. Circle the most appropriate answer. Only one answer will be accepted per question. There is no penalty for guessing.

- Which of the following assets is never expensed on the Income Statement?
 - Land
 - Building
 - Inventory
 - Equipment
- On August 1, 2010 Bonita, Inc. signed a \$50,000 note payable from First National Bank. The loan plus 6% interest is to be repaid on July 31, 2011. Bonita's year-end is November 30. In its 2010 financial statements Bonita will record interest expense of:
 - \$1,000
 - \$1,500
 - \$2,000
 - none of the above.
- If dividends are declared and paid in the same accounting period, what is the net effect on the accounting equation?
 - A decrease in cash and a decrease in retained earnings.
 - A decrease in cash and an increase expenses.
 - A decrease in cash and an increase in retained earnings.
 - A decrease in cash and an increase in dividends payable.
- Which of the following transactions would involve a debit to an asset account?
 - Recording depreciation expense on a capital asset.
 - Payment of an accounts payable
 - Declaration of a cash dividend
 - Collection of an accounts receivable
- If an \$8,000 sale is made on March 16 with terms of 2/10, net 30 and collection is made on April 17 the amount collected is:
 - \$7,200
 - \$7,840
 - \$8,000
 - \$8,160
- Which of the following would be added to net income when using the indirect approach to prepare the cash from operations section of the Cash Flow Statement?
 - Increase in inventory
 - Gain on sale of investments
 - Increase in dividends payable
 - Decrease in accounts receivable

Answer:

1 (a); 2 (a); 3 (a); 4 (d); 5 (c); 6(d)