Unit 2: Summative Assignment (Chapter 4-5)

**Accounting Transactions Assignment TOTAL: /60 marks**

Accounting Cycle and Cases

**Part A: ACCOUNTING CYCLE of Bonnie’s Batting Cages** (40 marks K/T)

1. Using the Chapter 5 Assignment Excel [template](https://download.elearningontario.ca/repository/14/1420720000/BAF3M%20(2012)PU02/BAF3M%20(2012)PU02A05/docs/U2A5_assignment_template.xlsx" \t "_blank), **set up the T-accounts** with the balances from the July 31, 2015 Balance Sheet

* *Located in the 1st tab of the template Excel File (2 marks K)*

1. **Record the August transactions** listed below into each **T-account**

* *Located in the 2nd tab of the template Excel File (17 marks - T)*

1. Then **calculate the balance of each account** at the end of the August transactions. *(4 marks K)*
2. **Create a trial balance** to make sure your debits = credits.
3. *Use the template provided in the 3rd tab of the template Excel File (6 marks K)*

1. **Create an Income Statement** for the Month of August.
2. Use the template provided in the 4th tab of the template Excel File (6 marks K)

1. **Create a new Balance Sheet in Report Form** with an Expanded Owner’s equity section dated August 31, 2015.
2. Use the template provided in the 5th  tab of the template Excel File*(5 marks K)*

**Transactions for August**

1. Bonnie Birch, the owner, invested $40 000 in the business.
2. Took out a $15 000 loan from TD Bank, which was deposited in the business' bank account.
3. Paid $1 500 to Romeyn Properties Ltd. for the monthly rent.
4. Bought office and various sport supplies for $2 000 cash.
5. Purchased $43 000 worth of bats, helmets, and other sports equipment from Cannon Sports on account. The amount is due in 30 days.
6. Paid $800 cash for the heating bill received today.
7. Bought pitching machines from Ewert Equipment for $12 000 and have 30 days in which to pay.
8. Equipment was repaired for $350 from Ewert Equipment and will be paid for later.
9. Bought $7 800 of miscellaneous sports supplies on account from Sandhu Sporting Goods. Due in 30 days.
10. Sold a one-month membership to the Infield Flyers for $800 on account. Payment to be received in 15 days.
11. Sold a two-month membership to the Remdal Red Sox for $2 200 on account. The bill is due in 30 days.
12. Cash sales for the month amounted to $40 200.
13. Bank charges for services fees and interest amounted to $250, which was taken directly out of the business' bank account.
14. Paid $2 200 cash for monthly wages.
15. Sold a one-month membership cash for $1 300.
16. Paid the full amount to Ewert Equipment from transaction 8, $350.
17. Owner withdrew $1 000 for personal use.

Unit 2: Summative Assignment (Chapter 4-5)

**Accounting Transactions Assignment**

ACCOUNTING CYCLE & CASES

**PART B: CASES** (20 marks - C)

**Case 1**

The owner and accountant of **Arctic Lynx Snowmobile Company** were preparing Income Statements for an important meeting with potential investors. The company badly needed new investment in the company to develop new snowmobile models for next year.

Two income Statements were available to illustrate last year’s performance:

1. The first income statement, for the six-month period of October1 to March 31, showed a very healthy **profit of $520,000.**
2. However the second income statement for the period of April1 to September 30, showed a **loss of $100,000.**

The owner, eager to please his new investors, argued with his accountant that he should only show the better income statement. He felt it didn’t matter which time period they chose to measure the health of the business.

**Questions**

**1.** What time period should the business choose to obtain an **accurate picture of profitability** for the company?

**2.** Why was the period from October to March so profitable?

**3.** Calculate the **true profit** for last year’s operations.

**4.** Did the company’s accountant have an obligation to reveal both income statements to the investors? Explain. What would you have done in this situation? (GAAP)

**Case 2** *(answer questions on next page)*

Tom Lafleur, a university student living in Alberta started up a new business. He formed the company **Tom’s Tree Service**. He trims and cuts down trees. He has been fortunate to secure a contract to cut down a large number of trees for a local golf course.

Tom estimates that it will take him from early June to the end of August to complete the job. The owners have agreed to give Tom three progress payments on the dates indicated below.

|  |  |  |
| --- | --- | --- |
| **Date** | **Payment Amount** | **Tom’s estimate of percentage of work completed for each month** |
| June 30 | $3 000 | 40% |
| July 31 | 3 000 | 50% |
| August 31 | 4 000 | 10% |
| Totals | $10 000 | 100% |

Tom would like to prepare **monthly statements** but cannot decide on the amount of revenue that should be recognized for each month of the contract. *(note: for the purpose of this case we will ignore expenses).*

**Questions**

1. What inaccuracies would exist in the June and July income statements if Tom were to decide to recognize the full $10 000 in the August income statement?

**2.** Research (using Google) **4 methods of revenue recognition** that would allow Tom to recognize some revenue on the June and July income statements **List each method with a definition below.**

1. Method 1:
2. Method 2:
3. Method 3:
4. Method 4:

**3.** How much r**evenue** would Tom **recognize in July** using each these 2 methods (researched in question 2)?

1. **Method 1:** *Cash Basis (or similar name)*

* Revenue recognized (recorded) = $

1. **Method 2:** *Work completed (or similar name)*

* Revenue recognized (recorded) = $

1. Which method is preferable? Explain why.

* Reasoning: